FINANCIAL TIMES

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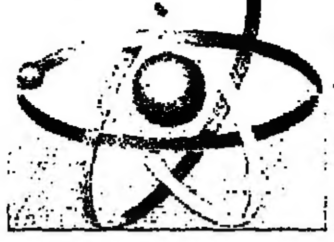

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The FT's 12-part series continues Today
Part Three: sources and types of finance.
FT Mastering Enterprise

World Business Newspaper http://www.FT.com MONDAY DECEMBER 2 1996

EU agrees rules on genetically engineered food

Controversial rules on genetically engineered foods have been agreed by the European Union after months of debate. The deal will mean most products could be marketed without special labelling. Welcomed by the food industry, the move has angered environmentalists, who vowed to continue their campaign against imports of soyabeans produced by Monsanto of the US. Page 20; Fresh life in the glasshouse, Page 14

Copper turmoil feared: London Metal Exchange copper traders are brace for market turmoil this week as dealers decide whether to exercise options bought months ago. The LME does not have nearly enough copper stocks to cover all outstanding contracts. Page 21

Eurotunnel stages post-fire test: Eurotunnel, which operates the under-sea tunnel between England and France, staged a test train evacuation in a bid to persuade the safety watchdog to allow it to resume services in the wake of last month's fire. Page 5

Police warn Serbian opposition: Police warned Serbia's opposition against further street demonstrations which contain "elements of violence and serious violations of the law". The warning follows two weeks of street protests against Serbian president Slobodan Milosevic. Sustained protests fail to threaten Milosevic, Page 2

Mother Teresa critical: Mother Teresa was critically ill after coronary artery surgery, with heart, kidney and lung problems. The Roman Catholic missionary, known for her work with Calcutta's poor and sick, is 86.

Zaire accuses Uganda: Zaire accused Uganda of attacking its territory around the eastern town of Kasindi and renewed fighting flared in Burundi. Zaire's Nyamulagira volcano erupted close to camps abandoned by Rwandan Hutu refugees.

NatWest ponders non-bank venture: Britain's National Westminster Bank may diversify into office stationery supplies. The stationery trade and suppliers who are NatWest customers threaten to close their accounts if the plan goes ahead. Page 21

Eurobond for Russian energy giant: Russian utilities giant Unified Energy Systems plans to launch a eurobond issue next year. Page 21

Irish minister quits: Irish transport, energy and communications minister Michael Lowry resigned after allegations that he took I£200,000 from a businessman to renovate his Tipperary house.

Burma to join Asean: The Association of South East Asian Nations agreed to admit Burma in spite of opposition from the west, which favours isolating Burma for its crackdown on a democracy movement. Page 4

Burger store yields place: McDonald's is closing its flagship Beijing burger outlet to make way for a shopping centre to be build by Hong Kong's Cheung Kong (Holdings). The US fast food company held out against a removal order for two years. Page 4

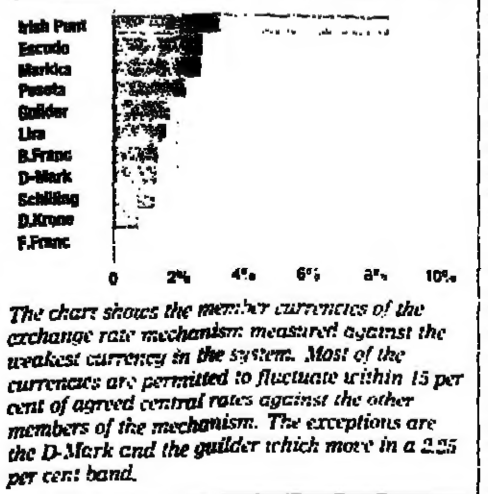
Copyright heads for cyberspace: More than 100 member governments of the World Intellectual Property Organisation are meeting in Switzerland to approve new treaties meant to bring copyright law to cyberspace. Page 4

Mars mission delayed: Nasa put off today's launch of the first Mars probe for two decades which is meant to land on the planet. The delay was due to high winds at the Cape Canaveral launch site in Florida.

Argentine peso bond plan: Argentina is considering issuing an international peso-denominated bond early next year. Page 20

Rugby Union: Australia beat Wales 28-19 at Cardiff in world record try-scorer David Campese's last international match. The Wallaby winger scored 64 test tries in 101 internationals.

European monetary system: The Italian lira settled in the middle of the EMS grid, which it entered on rejoining the European exchange rate mechanism last week. The Finnish markka took third place in the grid from the peseta. Currencies, Page 27



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

French franc 'competitive'

Bank of France governor rejects calls for depreciation but hints at concern over dollar

By Martin Wolf

Mr Jean-Claude Trichet, governor of the Bank of France, has rejected calls for a depreciation of the French franc.

In an interview with the Financial Times, he said: "Far from being overvalued, the French franc is highly competitive compared with the D-Mark and other strong currencies in the ERM and is no longer overvalued against any European currency. The dollar is another matter, but this has absolutely nothing to do with the question of intra-European exchange rates," he said.

Mr Trichet said that the bank never engaged in polemics. But his remarks should be seen in the context of calls for depreciation or devaluation of the franc from Mr Valéry Giscard d'Estaing, the former French president, and Mr Paul Marchelli and Mr Jean-Pierre Girard, members of the Banque de France's monetary council who were speaking in a personal capacity. On Friday, Mr Trichet dismissed such calls in an official central bank statement.

Meanwhile, in a meeting at the weekend, French president Jacques Chirac and his German counterpart Chancellor Helmut Kohl, reaffirmed their commitment to a stable franc-D-Mark exchange rate.

Speaking after talks with Mr Kohl in the French town of Périgueux, Mr Chirac said he had "confirmed the French position on the stable relationship between the franc and the D-mark".

Mr Jean Arthuis, the French finance minister, in today's Les Echos, the French financial daily, expresses astonishment at Mr Giscard d'Estaing's comments and reiterates his view that the franc-D-Mark exchange rate should be "maintained at its current level". But he suggests the French government would welcome a downward drift of the franc against the US dollar.

Mr Trichet said expressions of personal opinions by members of the council were "absolutely normal" in Paris as in any independent central bank. But only the governor spoke for the council.

"The position of the bank is clear," insisted Mr Trichet. "Stability within the group of the most credible currencies in Europe is an integral part of our monetary policy. This strategy is enshrined in the European policy of President Jacques Chirac and the French government. It is enshrined in the preparation of economic and monetary union. It has recently been re-emphasised by the prime minister, Mr Alain Juppé, and the German Chancellor, Mr Helmut Kohl."

With the appreciation of sterling, and the lira rejoining the ERM at an agreed rate, European exchange rates were once again at approximately appropriate levels. The huge French current account surplus and the relationship of French unit labour costs to Germany's demonstrated that the French franc was highly competitive within the European Union, he said.

As for the dollar, this was a question for the Group of Seven leading industrial countries, which had agreed that "a strong dollar is in the interests of all".

Special reports, Page 3

Any British government will bow to City and industry demands, says EC chief

Jacques Santer: Big business will create irresistible pressure on Britain to join economic and monetary union, he says

Pressure for Emu will be irresistible in UK, Santer says

By Lionel Barber and Andrew Gowers in Brussels

Big business and finance in the UK will create irresistible pressure on Britain to join European economic and monetary union, according to President Jacques Santer of the European Commission.

Mr Santer said in an interview that no future UK government, Conservative or Labour, would be able to resist the City of London and the Confederation of British Industry once they decided Britain should take part in the future *single currency zone.*

Mr Santer's comments come *ahead of a meeting of European Union finance ministers who today will try to break a* deadlock over Germany's *demands for tough rules on* when countries taking part in the single currency can run excessive budget deficits.

His remarks seem certain to stir controversy among Tory Euro-sceptics who are against the single currency on principle. They want Mr John Major, the prime minister, to rule out participation in Emu in the next parliament.

The Commission president said Emu would definitely go ahead on schedule in 1999, but he insisted on strict interpretation of the Maastricht entry criteria. Without naming Italy or Spain, he voiced concern that *some countries ware making membership in 1999 "a matter of national pride".*

Asked to look ahead to 2003, he said: "There will be monetary union and Britain will be a member."

Mr Santer was more cautious on the timetable for enlargement, saying that only "one or two" countries from central and eastern Europe were likely to gain membership by 2003.

He favoured differentiation among the candidate countries rather than allowing all 10 *applicants to open accession* negotiations at the same time, *most likely in mid-1998. He* also expressed concern about *the treatment of minorities in* eastern Europe. "We need action on the ground."

While he voiced support for a Franco-German proposal to invite the eastern applicants to a standing conference on EU enlargement from 1998, he said it could not be a substitute for accession talks.

On the EU's inter-govern*mental conference, Mr Santer* said the Commission was exerting more influence on the negotiations than it at first appeared.

Draft texts on reforms in justice and home affairs co-operation were largely based on Commission proposals, while French plans to create a new high-powered political appointee to speak for EU foreign policy as a rival to the Commission had been watered down.

Mr Santer was also quietly confident that the Commission would succeed in extending its *negotiating authority in trade* matters to intellectual property *and services in the final* horse-trading among member *states in the Maastricht 2 con*ference next spring.

In response to charges that the Commission has been "timid" in comparison with its predecessors, Mr Santer said

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At ease in his beliefs, Page 19;
Observer, Page 19

French and German utilities buy $403m Swiss stake

By William Hall in Zurich

Electricité de France, the state-owned utility, and RWE Energie, a leading German utility, have paid SFr526m ($403m) for a 40 per cent stake in Motor-Columbus which controls Switzerland's biggest electricity company and nearly half of Switzerland's electricity exports.

The deal was announced only hours after Elektrowatt, the Swiss industrial conglomerate, announced plans to spin off its stakes in four Swiss electric utilities into Watt, a new company that will be quoted on the Swiss stock exchange.

The moves follow the breakdown of talks between Union Bank of Switzerland, Motor-Columbus's majority shareholder, and Credit Suisse, Elektrowatt's biggest shareholder, to create a giant Swiss electric utility.

Most of Europe's leading electricity companies have shown an interest in taking a stake in the Swiss companies because Switzerland occupies an important strategic position in the European electricity industry through its topography and location.

Its position in the heart of Europe makes it an important centre for trading electricity supplies among France, Germany and Italy.

With close to a third of its electricity generated from pumped storage hydro-electric plants in the Alps, it is also well placed to meet demands from neighbouring countries at short notice.

EdF and RWE have each bought from UBS a 20 per cent stake in Motor-Columbus, a quoted Swiss company whose main asset is a 55 per cent holding in Aare-Tessin Electricity (Atel), the country's largest electricity company. UBS will retain a 35.6 per cent stake.

The shares were sold at SFr2,600, a near 5 per cent discount on Friday's closing price of SFr2,730. UBS will make a SFr100m book profit

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Surprise UAE loan boosts Pakistan's new government

Medium-term deal likely to increase reserves by $500m

By Peter Montagnon and Farhan Bokhari in Islamabad

The United Arab Emirates has unexpectedly come to the aid of Pakistan with the offer of a substantial loan, expected to be about $500m, to help with short-term economic problems.

The loan comes as a big boost to the caretaker government installed by President Farooq Leghari after the dismissal of Benazir Bhutto as prime minister last month for alleged corruption, economic mismanagement and human rights abuses.

"This is the first good news I *have had,"* said Mr Shahid Javed Burki, the World Bank *official brought in by the care*taker government as its financial adviser.

The loan will be used to help boost Pakistan's reserves and shore up its balance of payments. It will be medium-term financing at a fixed rate below normal market levels and, though the final details have yet to be fixed, will "more than meet" debt repayments due in December, Mr Burki said.

Pakistan's foreign exchange reserves have risen by around $100m to almost $700m since the new government took office, but they are still worth only about three weeks' imports and are far below their level of $1.7bn in June.

Pakistan has been urgently seeking to increase the reserves to help secure payments on its $28bn of foreign debt, much short-term.

With a cash injection of at least $160m also expected soon *from the International Mone*tary Fund, Pakistan's reserve position is starting to look stronger. Mr Burki said the government would now have greater flexibility in negotiating commercial borrowings.

"The loan helps to overcome the immediate problems. Con*fidence will improve," said Mr* Nasir Bukhari, a leading Kara*chi stockbroker.*

Mr Burki is due to discuss a planned issue of up to $300m worth of Samurai bonds – borrowings denominated in yen – with bankers in Tokyo this week. He will then go to Washington for talks with the IMF, urging an acceleration of borrowings under its new standby credit arrangement.

But a proposed $225m credit backed by the foreign currency receivables of Pakistan Telecommunications has been delayed because of legal problems. There are concerns that the loan contract could conflict with the requirements of World Bank loans which gives it first claim on PTC resources.

The UAE decided to make the funds available because of its growing interest in investing in Pakistan. Mr Burki said the UAE also asked the caretaker government to mount a roadshow to promote investment in Pakistan's utilities, infrastructure and industry.

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 10.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDH15	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr380	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£C 90
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils750	Portugal (mainland)		Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500		Es265	UAE	Dh13.00

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هكذا من الأصل

López departure from German carmaker's board fails to appease GM offshoot

Opel denies settlement talks with VW

By Haig Simonian in London and Andrew Fisher in Frankfurt

Adam Opel, the German subsidiary of General Motors, yesterday rejected reports that it was in talks on an out-of-court settlement to end its acrimonious legal battle with Volkswagen over alleged industrial espionage.

"There are no talks under way", said Mr David Herman, Opel's chairman. "That is the position of everyone concerned." VW declined to comment on the reports.

Mr Herman also questioned the significance of last week's resignation from VW's board of Mr José Ignacio López, the former GM executive who is alleged by Opel to have taken confidential material when he moved to VW in 1993.

"Since Opel's and GM's complaint relates to the fact that Mr López took our secrets to VW, the fact that he may continue to work for them and with our information could not possibly be a step in the right direction," said Mr Herman.

VW said Mr López, who had stepped down to concentrate on his legal defence, would establish an international business consultancy. However, senior VW executives left open the possibility that he might still work on their behalf in his new role.

Mr Herman repeated that Opel's minimum conditions for an out-of-court settlement involved the departure not only of Mr López, but of the seven other former GM employees who had transferred to VW with him. GM also sought a full apology from VW, as well as substantial damages.

GM claims an out-of-court settlement would be in VW's best interests in view of the fact that a Detroit court last week accepted GM's argument that its allegations fell under the draconian Racketeer Influenced and Corrupt Organisations Act.

Mr Herman said VW could make a first, important gesture towards reaching agreement by publicly acknowledging it had erred in 1993 in attacking Opel and GM for a variety of actions, including allegedly tampering with its computer system to incriminate Mr López. Such a gesture "would go a long way to clearing the air", he said.

Mr Herman declined to say what amount of damages GM might consider sufficient. Analysts have speculated on a range of between $1bn and $4bn, although a figure of several hundred million dollars appears more reasonable. GM would seek "a sum of money to remedy the wrong-doing and compensate for the damage incurred", he said.

He dismissed press reports, believed to be instigated by VW, that the Detroit action could be strung out for years. Mr Herman noted that the judge involved had already indicated she hoped to conclude the case within the next two to three years.

According to analysts, even if VW were to prolong the case, it would, under German law, have to make provisions in its accounts for the full amount sought by GM before a final judicial outcome.

Lawyers for the two sides are due to meet in judges' chambers in Detroit tomorrow for a "status conference" to discuss a timetable to proceed. GM's attorneys are expected to press for a rapid resolution, while the VW team is thought likely to request a much more measured pace.

Under US law the case will now move to the "discovery" phase, in which lawyers for the two sides can request each other's evidence and subpoena witnesses.

Separately, in Germany, criminal investigators in Darmstadt, south of Frankfurt, are expected this week to indict Mr López in their longstanding inquiry into the alleged theft of GM's documents.

Editorial comment, Page 19

Fokker flies into further turbulence

By Gordon Cramb in Amsterdam

All the larger Fokker aircraft in service worldwide are to have their controls adapted to prevent engines from being put into reverse while airborne – the suspected cause of a crash which cost 101 lives in Brazil in October.

The news came this weekend as a final indignity to the bankrupt Dutch maker of regional aircraft, after its receivers and the government said on Thursday they were abandoning protracted talks with South Korea's Samsung over a proposed rescue.

The potential problem affects the F100, launched in 1988, and the F70, a shorter and quieter version first delivered only a year and a half ago. A F100 of TAM, a domestic carrier, hit a suburb of São Paulo shortly after its departure from the city's Congonhas airport, with pilot error believed to be the cause.

Investigators appeared concerned, however, that this might have been due partly to the failure of a cockpit alert to signal that an engine had not been locked into its mid-air position. Reverse thrust is usually used only to brake an aircraft on landing.

Fokker collapsed early this year after Dasa, part of Germany's Daimler-Benz group, refused as majority shareholder to provide more funds. In spite of its recurrent financial problems, Fokker's aviation technology had been regarded in the industry as superior, and it was world market leader in the 50- to 100-seat range.

The F50 propjet is unaffected by the latest overhaul, which will be carried out by Fokker Aviation, the profitable maintenance and components division sold this summer to Stork, a Dutch industrial group. Stork expects work for the next quarter century in servicing the Fokker fleet, whether or not manufacturing restarts at Fokker's assembly plant near Amsterdam's Schiphol airport.

In the business plan which was being discussed with Samsung, Stork and the Dutch government were each to have taken 15 per cent stakes in the aircraft builder. This was scuppered after Short Brothers, the Northern Ireland based supplier of its wings, said it would accept no further orders because of the uncertainty over Fokker's future.

Executives of Samsung, which signed a letter of intent in September but missed subsequent deadlines to conclude a takeover agreement, were said to be seeking further meetings in The Hague this week.

With a staff of 650 – just 5 per cent of those it employed at the start of the decade – Fokker is due to remain in small-scale production until next spring. No other buyer has emerged.

Patents to its aviation technology reside in a vault at the Utrecht headquarters of Rabobank, Fokker's main bankers, following an earlier sale and leaseback deal with the large financial co-operative. That arrangement was criticised this year by the Dutch audit office as detrimental to tax revenues for the state, which has a minority stake in the aircraft maker.

Mr Herman Wijffels, Rabobank chairman, said on Friday that if Fokker was not restarted, the government should decide what was to become of the so-called techno-leases.

Changes to be made after a Brazil crash come as a final indignity

Of his client's demise, which brought the biggest redundancy toll in Dutch manufacturing history, he said: "I expect that there will be a certain evaluation of what happened: did the government do all it should have done to save Fokker?"

The general feeling at the weekend, shared by Mr Wijffels, was that it had.

Mr Hans Wijers, who as economy minister has been in charge of the Samsung negotiations, may be playing an elaborate endgame which could still result in a deal.

But after the wing production line is decommissioned at Short Brothers – controlled by Bombardier of Canada, one of several potential purchasers to have looked at Fokker and walked away – the costs of a relaunch are likely to be prohibitive.

Calls are instead growing among MPs of the governing three-party coalition for the Dutch to join the European Airbus programme, with state development funds providing the backing for companies such as Stork to supply parts for the consortium's next-generation jet.

Truck drivers' victory may be contagious

The French newspapers had no hesitation in declaring the winners of the 12-day truck-drivers' strike. "Seldom has a profession obtained so much through a 12-day strike," said Aujourd'hui, a tabloid. "Has France become the most ungovernable country in Europe?" asked the more upmarket Figaro, with more than a hint of melodrama. It went on to answer its own question: "Without a doubt."

The strike wound down on Friday after unions and employers signed five agreements and the government promised a new decree to address drivers' claims that they were not paid for all the hours they worked.

Fears are growing that other unions may seek to exploit French government. David Owen reports

It is hard to disagree that the outcome represents a substantial victory for the drivers. They may not get an out-and-out pay rise, although a FFr3,000 ($579) one-off bonus payment has been offered.

They will also have to wait up to two weeks before knowing the exact terms of the deal on the definition of their working hours – a deal which some unions think could yield the equivalent of a 10 per cent wage increase.

But the accords signed on Friday by all unions except the Communist-led CGT mean drivers with 25 years' service have already secured retirement at 55 instead of 60. Improvements in a number of other areas including travel expenses, sick pay and union rights have also been agreed.

They have also received a sizeable morale boost, from both the quick results of flexing their muscles and the attitude of the French public, which was generally supportive throughout.

For the battered and deeply unpopular government of Mr Alain Juppé, prime minister, the reckoning is a bit more complex.

It simply cannot afford a repetition of last winter's crippling public sector strikes, which paralysed the country and contributed heavily to the 0.4 per cent contraction in gross domestic product in the last quarter of 1995.

A second winter of discontent could jeopardise France's qualification for European economic and monetary union, and might also bring an end to Mr Juppé's premiership and increase the chances of a heavy Socialist victory in legislative elections due by spring 1998.

The fact that its intervention in a private sector dispute was instrumental in getting the truck drivers' roadblocks lifted in the nick of time for many businesses, and that other workers did not strike in sympathy, are therefore matters of no small importance to the government.

Ministers can also argue that the immediate financial cost was limited: it will help fund the reduction in retirement age as well as cutting some payroll charges paid by employers.

This cost may increase substantially, however, as compensation claims flood in from transport operators and other businesses hit by the strike. The government is already under intense pressure to implement emergency compensation procedures.

The dispute also put France's relations with several of its European partners, particularly the UK, under severe strain. These governments became increasingly exasperated at the plight of foreign drivers held hostage at roadblocks and the French government's apparent inability, or unwillingness, to do anything about it.

Finally, the strike provided the most graphic illustration yet of the weakness of the government's present position. Hemmed in by the inflexible Maastricht treaty and electoral timetables, it seems it simply dares not get tough in the face of intimidation from powerful pressure groups. This weakness has already been highlighted by the decision last month to postpone parliamentary debate on railway reform.

The danger is that other unions, already angry about stagnant living standards and high unemployment, will now seek to exploit the government's predicament.

On Friday, even before the last roadblocks had been removed, some unions were already calling for disruption of French oil refineries. As another French newspaper, Le Journal du Dimanche, yesterday asked: will the truck drivers' victory prove "contagious"?

Russia to take a tough line as Europe weighs security system

By Bruce Clark, Diplomatic Correspondent

Chernomyrdin waves on arrival in Lisbon yesterday with his wife Tamara Reuter

Western heads of governments will today make their first formal move to draw Russia into a new European security system with an expanded Nato at its core.

But Mr Victor Chernomyrdin, the Russian prime minister, who will speak for Moscow at the 54-nation summit in Lisbon, confirmed as he set off yesterday that he would set tough terms for his country's assent to the security order that will take shape next year.

"We are categorically against the expansion of Nato to the east," he told reporters, according to Interfax news agency. "Russia has its position and will stand by it."

Russia hopes the Organisation for Security and Co-operation in Europe (OSCE) – a loosely structured body grouping Europe, North America and the ex-Soviet republics – will eventually take pride of place among the continent's defence clubs.

Western leaders – including US Vice-President Al Gore, France's President Jacques Chirac and Germany's Chancellor Helmut Kohl – will agree to some strengthening of the OSCE, but they want Nato to be the main security bloc in Europe.

"Russia foresees a pyramid of organisations, with the OSCE at the top, but this is unacceptable to Nato members," said a western diplomat.

Britain, France and other European Union members will put forward an alternative set of proposals for co-operation between Nato, the OSCE and other security clubs.

It will be modelled on this year's experience in Bosnia, where the Atlantic alliance provided peacekeepers and the OSCE organised elections.

As well as upgrading the OSCE, western governments are offering Russia a wide-ranging review of the 1990 treaty on conventional forces in Europe (CFE), which limits the amount of armour, artillery and aircraft each country can have.

Further changes to the CFE accord, which has already been revised in Russia's favour once this year, could give Moscow the guarantees it wants that Nato will refrain from large new deployments on the soil of new members.

But Mr Chernomyrdin is still expected to avoid endorsing any communiqué that would imply acceptance by Moscow of Nato's plan to expand by the end of the century.

Other ex-Soviet republics – including Georgia, Azerbaijan, Moldova and Ukraine – will go to the summit in the hope of shoring up their territorial integrity and blocking diplomatic language that could boost Russia's claims to hegemony.

The last OSCE summit, in Budapest in 1994, ended in a diplomatic fiasco after President Boris Yeltsin lashed out against Nato expansion, and participants could not agree on a single word about Bosnia in a 90-page statement.

A few days after the Budapest meeting, Russia sent tens of thousands of troops into Chechnya in open violation of the rules on civil-military relations and minimum use of force which the summit had adopted.

The organisation, born out of the 1975 Helsinki agreements on respecting borders and human rights in Europe, has received a new lease of life by acting as a mediator in Chechnya and overseeing Bosnia's elections.

The group's Sarajevo operation has been widely accused of overlooking electoral malpractice under pressure from the US, which was keen to demonstrate that Bosnia's peace process was moving ahead briskly.

Today's meeting will also be overshadowed by the recent moves of President Alexander Lukashenko of Belarus to entrench his own power in defiance of the OSCE's democratic ideals.

The OSCE has voiced grave concern about the "institutional crisis" in Minsk and offered to help find a solution.

Sustained protests fail to threaten Milosevic

Laura Silber reports on the largely middle class opposition to autocratic rule

The tables have turned on President Slobodan Milosevic of Serbia. The man who once marshalled huge nationalist rallies to get rid of his political opponents in former Yugoslavia is now facing the first sustained protests against his autocratic rule.

A fortnight of street demonstrations against the annulment of opposition victories in local elections have taken not only Mr Milosevic by surprise, but opposition leaders as well.

Mr Milosevic so far has ignored the protests, apparently confident that he remains firmly in control, backed by his pillars of power: the police, media and finance. His ruling Socialists have showed little inclination to accept opposition claims of election victory in key cities.

In spite of the 100,000-strong crowds gathering in Belgrade to whistle and jeer at the mention of his name, Mr Milosevic can still claim a popular mandate. Bolstered by his propaganda machine, he led an alliance of his Socialists and the Communists (led by his wife) to a clear victory in the elections for the federal assembly on November 3.

The opposition's landslide victory in Serbia's biggest cities in the local poll was more a vote against the Socialists than in favour of the quarrelsome opposition coalition Zajedno ("Together"), which barely papered over its divisions in time for the ballot.

Serbia's wars in Croatia and Bosnia have delayed democratic changes that came to the rest of eastern Europe. While the people of the former Soviet bloc formed mass movements to dismantle their ruling Communist parties in 1989, Serbia's Communists merely re-emerged as "Socialists" and Mr Milosevic's regime remained intact. Indeed, Serb crowds swarmed to applaud "Slobo", the grey Communist apparatchik recast as their nationalist leader.

But for the opposition, mostly middle class Serbs, Mr Milosevic's annulment of the elections was the last straw, the most blatant in a series of political turnarounds during his rule. He has reverted to his communist past, refusing to share power even on the local level and trampling state institutions underfoot.

Serbs have seen a chosen few, handpicked by the president, get rich off the war and sanctions, while they foot the bill. Faced with sudden impoverishment, tens of thousands of educated people have gone abroad. Demonstrating students have been carrying placards of signposts pointing to western Europe, the US, and Australia in protest at the lack of prospects in this country.

The average monthly wage is the equivalent of $125, more than half the labour force is unemployed and half the factories are shut. Workers, hard-pressed to make ends meet, have not joined the protests.

To stave off economic collapse and a flood of discontent which could ultimately be supported by workers, Mr Milosevic needs to win the removal of the so-called outer wall of international sanctions – which include access to the International Monetary Fund, World Bank and the UN.

He is said to be outraged by western moves last week to postpone EU preferential trade status for Yugoslavia as well as indications that the lifting of financial sanctions has been put on hold.

Aware of intense international scrutiny, Mr Milosevic is refraining from cracking down on the protests. If they continue, he is likely to seek a face-saving compromise, perhaps to form a special commission to verify the elections. In the past he has used such methods, which have defused opposition protests but have only confirmed the government position.

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Executives in both countries say 1996 performance much worse than expected

France, Germany top gloom league

By Peter Martin

Bosses in France and Germany are markedly less optimistic about the future than their counterparts in other big European economies, according to the latest Europe Business Monitor survey carried out for the UPS package delivery company.

French and German executives also report the most disappointing performance in 1996. The most optimistic are those in the UK and the Netherlands, who also had the best experience in 1996.

The survey was carried out by Harris Research among 1,470 directors from Europe's top 15,000 companies during September and October.

Overall, 58 per cent of directors in seven European countries expect their companies to be in a better economic position in a year's time than now, and 8 per cent expect it to be worse, giving a net optimism score of 51 per cent. Some 32 per cent expect it to be about the same.

In France, however, the net optimism score is 34 per cent, and in Germany 38 per cent, roughly in line with predictions a year ago. In these two countries, 1996 performance has been much worse than expected.

Asked how their situation compared with a year ago, the difference between those reporting an improvement and those reporting a deterioration was only 2 per cent in France and 5 per cent in Germany.

In the UK, 75 per cent of directors expect their companies to be better off in a year, and only 5 per cent worse off, giving a net optimism figure of 70 per cent. Reports of performance for 1996 are also positive, with a net score of 54 per cent.

The pattern is similar in the Netherlands, where net optimism is 68 per cent and the 1996 net performance figure is 49 per cent.

As in previous years, companies expect to reduce their workforces over the next 12 months. Only the UK shows an expected rise in staffing.

For the fifth year running, European business people expect Germany to show the strongest growth over the next three years, but the figure has dropped steadily year by year.

Germans themselves are less optimistic about their country's prospects than respondents in every other country. The UK has now moved into second place, with particularly strong support from British companies and from Germany.

Asked if they wished to see any country leave the European Union, 75 per cent said no country should leave. Greece and the UK were the least popular countries, however.

The wish to see the UK leave was strongest in Belgium (24 per cent) and France (21 per cent). Only 2 per cent of UK business people thought Britain should leave. Three potential recruits to the EU enjoyed strong support for membership: the Czech Republic, Poland and Hungary.

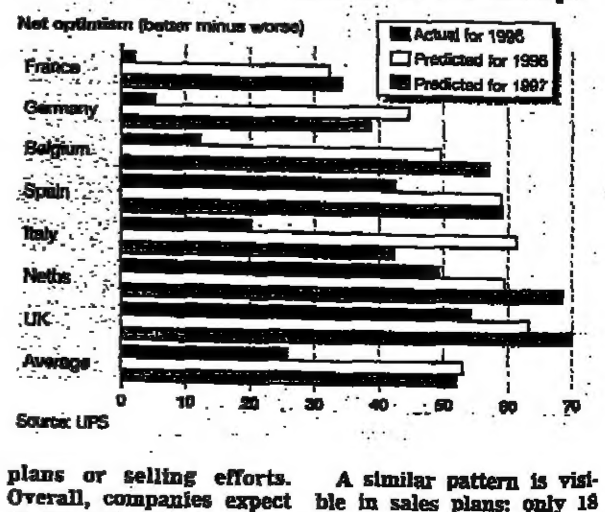
Over the next five years, half of European bosses expect to achieve most of their profits growth in Europe, and half elsewhere. The highest score among non-European regions went to south-east Asia, which 26 per cent of bosses expect to provide them with their main profits growth.

However, these overseas growth expectations are not matched by investment plans or selling efforts. Overall, companies expect 64 per cent of their capital investment to go to western Europe and 6 per cent to eastern Europe, with only 9 per cent going to the Asia-Pacific region. North and South America are expected to absorb the remaining 10 per cent.

A similar pattern is visible in sales plans: only 18 per cent of selling effort will be devoted to the Asia-Pacific region, compared with 65 per cent to eastern and western Europe.

Europe Business Monitor, UPS Europe PR office, Avenue Ariane 5, 1200 Brussels, Belgium. Fax: +32 2 776 9698

Current business climate across Europe



Source: UPS

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NEWS: EUROPE

Bid to break deadlock on Emu discipline

By Lionel Barber in Brussels

European Union finance ministers will today try to break the deadlock over German demands for strict rules on when countries taking part in the planned single currency can run excessive budget deficits.

The impasse threatens to delay approval of a blueprint on budgetary and currency discipline in the future European economic and monetary union (Emu) until next summer's summit in Amsterdam.

Postponing a deal on the budget stability pact would not necessarily scupper the Emu timetable. But it comes amid renewed debate – over the Bundesbank's monetary stance and exchange rate policies – between France and Germany, the chief proponents of monetary union.

EU leaders had promised they would wrap up agreement on the budget stability pact and the new-model exchange rate mechanism (ERM) for currencies outside the single currency – or euro – zone at the Dublin summit at the end of next week.

However, Germany has been digging in its heels on the terms of the stability pact, partly in response to fears that EU leaders may relax the Maastricht treaty entry criteria for Emu to let in weaker currencies, notably the Italian lira, and thereby risk a backlash from German public opinion.

The Bundesbank and the German finance ministry are arguing that all Emu participants must show "sustainable convergence" before entering Emu. Their "insurance policy" is a stability pact that penalises countries running public deficits in excess of 3 per cent of gross domestic product.

A majority of countries, led by Britain and Spain, consider the German approach too rigid. France has also abandoned Germany, its traditional ally, arguing for a more flexible approach which could take account of employment and growth as well as a country's track record on budget discipline.

Separately, the negotiations have become entangled in UK domestic politics.

Tory Euro-sceptics are arguing that Britain will have to adhere to the common rules on budget and currency discipline even if it chooses to opt out of Emu. As a result they are putting pressure on Mr Kenneth Clarke, the chancellor of the exchequer, to put off a final deal until after the next UK election, which must be held by next spring.

The key German demand is to define precisely the "temporary and exceptional" circumstances under which countries would be allowed to run excessive budget deficits. Germany wants to set the level of economic weakness as a decline of 2 per cent in GDP over four consecutive quarters.

Hopes of progress at today's meeting of finance ministers rest on a compromise which would meet the German demand for a numerical definition while offering ministers discretion on when to impose penalties.

Last week the EU's secretive monetary committee – comprising senior treasury officials of the member states – failed to reach a deal on this. But the presence of Mr Theo Waigel, German finance minister, at today's meeting may help to narrow differences.

On several occasions, German officials have threatened to abandon negotiations on the stability pact with the 14 other EU states and wait instead until the first wave of Emu members is chosen in early 1998.

A separate issue is the size of penalties which can be imposed on fiscal delinquents. Germany wants to tighten procedures – which include four separate votes in the Council of Ministers, some including and some excluding Emu participants.

Despite difficulties on the stability pact, Brussels officials predict EU leaders will agree in Dublin on new rules governing the euro's legal status, while design of a new "hub and spokes" exchange rate mechanism built around the new currency is virtually a done deal.

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Mr Hans Tietmeyer, Bundesbank president, warned at the weekend that accord on a stability pact was "very important" for the success of European economic and monetary union, writes Ralph Atkins in Bonn. Reiterating his determination that Germany should only join a "hard" currency union, he said proposals for a pact did not reflect distrust in Europe's political leaders but were "a necessary precaution for the future". In an interview with Der Spiegel, the weekly news magazine, Mr Tietmeyer also said he believed the D-Mark was reasonably valued in Europe but acknowledged there had been "temporary" overvaluation in the past year. Monetary policy in Europe was "stability oriented" but left room for growth with short term interest rates at a low point. He saw no immediate reason for interest rates to move.

French monetary policy in line with our requirements, says governor of Bank of France

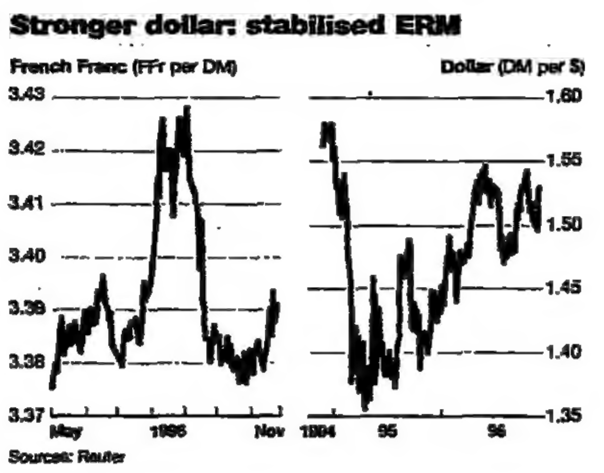
Trichet defends policy on exchange rate

By Martin Wolf

Mr Jean-Claude Trichet, governor of the Bank of France, has strongly defended the appropriateness of French monetary and exchange rate policies against recent criticism.

In an interview with the FT, Mr Trichet insisted the franc was no longer overvalued against any European currency, as was shown by the huge French current account surplus – forecast at $20bn this year – and the competitiveness of French unit labour costs relative to those of Germany.

Jean-Claude Trichet: franc no longer overvalued



Interest rates were also in line with what was required at the current stage of the economic cycle, he added.

"The stable exchange rate policy and the credibility of the franc have brought France the third-lowest market interest rates in the world, with real short-term rates the same as those of Germany, at the lowest levels in Europe."

"Medium- and long-term rates, which are decisive for the French economy, because they trigger investment in both production and housing, are at historic lows," he noted. These low interest rates are being achieved "through our own credibility". So: "We are delivering what the economy needs. I regularly tell French business it is time to invest, because they have very low market interest rates, they are competitive and they can have confidence in medium-term growth for France and Europe."

But Mr Trichet pointed out that such sluggishness in investment was also seen in other European countries.

The Bank expected the economy to expand by around 8.9 per cent between 1993 and 1997. The average growth of 2.2 per cent a year would be only "slightly below" the Bank's current estimate of the economy's potential growth, of around 2.5 per cent.

"What is clear is that we are a growing economy, not a stagnating one, in the medium term, and the prospects for 1997 in continental Europe and France are quite encouraging."

As for the abnormally high French unemployment, this was 80 per cent structural, according to the Organisation for Economic Co-operation and Development, said Mr Trichet.

"The economic machinery is working pretty well. Otherwise, we would not have one of the highest gross domestic products per head in Europe and a large current account surplus. But we have impediments in the labour market and in the structure of the public sector.

"We have no incentives for part-time jobs in the private sector, for example, and the cost of hiring an additional unskilled worker is higher than that in other industrial countries," he said. "I am not advocating the French adopt the UK or US approach... because in the French perspective it is not even believable that there could be no minimum wages, as in the UK, or very low ones, as in the US.

"Instead, what I say is: we have a good capacity to produce wealth. The problem is that we don't know how to produce a sufficient level of jobs. Let's not reject equality and fraternity, which are at the heart of the French social deal. But let's look at those countries in continental Europe which share our values and our overall economic and monetary strategy, and are posting a much better performance in terms of job creation and unemployment.

"Let's look at the Netherlands; let's look at Denmark.

"When we look, we see that they have introduced a number of precise reforms, which are not dramatic. They have minimum wages, but they have promoted part-time jobs.

"The simple implementation in France of part-time jobs in the same proportion as in the Netherlands would diminish unemployment by 1m.

"There is an enormous potential for creating jobs by following such examples."

Import limits set to be retained

Sweden likely to get nod on alcohol curb

By Greg McIvor in Stockholm

Sweden is set to receive the go-ahead from its European Union partners today to maintain its strict curbs on alcohol and tobacco travel allowances for at least another four years.

EU finance ministers meeting in Brussels are expected to agree to allow Sweden to keep its current rules, pending a review in the year 2000. But Denmark and Finland, which have similar restrictions, are to agree to phase out their limits by 2002.

Sweden allows individuals to import a litre of spirits, 5 litres of wine, 15 litres of beer and 300 cigarettes. Elsewhere in the EU, the allowances are 10 litres of spirits, 90 litres of wine, 110 litres of beer and 800 cigarettes.

Both Sweden and Finland try to limit domestic alcohol consumption through state retail monopolies. They were granted an exemption from EU import limits until the end of 1996 when they joined the Union in January 1995. Denmark got a similar dispensation in 1992 during ratification of the Maastricht Treaty.

All three have come under pressure from the Commission to phase out the limitations. Brussels has insisted that the rules conflict with the free flow of goods between member states.

Sweden threatened to veto any decision and refer the matter to the European Court. The Commission subsequently backed down, agreeing to prolong the Swedish exemption.

Mr Erik Asbrink, Swedish finance minister, said that Sweden had received "strong understanding" from member countries for its stance.

He said that the four-year extension would allow it to formulate a modernised alcohol policy aimed at reducing consumption "by other means than the usual ones". This would probably be via educational programmes.

A meeting last week of EU permanent representatives in Brussels resulted in broad support for this approach. Officials in Brussels said they expected it to win unanimous backing from finance ministers today.

Asbrink: agreement would allow time to draw up a modernised alcohol policy

Sweden has historically had high levels of alcohol consumption. The government regards its alcohol monopoly, strict import curbs and high taxes on drink as vital instruments of social and health policy.

Continued import restrictions will be welcomed by Swedish brewers, who have warned of severe consequences for their business if travellers are allowed to import larger amounts of cheaper beer from the Continent.

Sweden's high alcohol taxes have already led to a surge in "beer traffic" between Sweden and Denmark, where taxes are substantially lower.

Asean agrees to admit Burma as member

By Manuela Saragosa in Jakarta

The Association of South East Asian Nations (Asean) has agreed to admit Burma into the grouping, along with two other applicant nations – in spite of opposition from the west, which favours isolating Rangoon for its crackdown on a pro-democracy movement.

But the heads of government of the seven Asean nations stopped short over the weekend of giving an exact date for Burma's entry. They said only that it should join alongside Cambodia and Laos, which are expected to be admitted in 1997, probably at Asean's 30th anniversary meetings in July. There was no sign that this informal schedule had been changed.

The decision is also seen by observers as a victory for Malaysia and Indonesia. Dr Mahathir Mohamad, Malaysia's prime minister, has said publicly that he wants Rangoon to join in 1997, when Kuala Lumpur will host key Asean conferences. Asean comprises Indonesia, Singapore, Malaysia, Thailand, Vietnam, Brunei, and the Philippines.

The group's undertaking not to name an admission date was probably intended to accommodate Singapore, Thailand and the Philippines, which have voiced reservations about Burma's early entry, diplomats said.

It also leaves an escape clause for Asean if the situation in Burma deteriorates to a point at which the grouping feels compelled to delay its entry.

The crackdown on Burma's pro-democracy movement – led by Ms Aung San Suu Kyi, the Nobel Peace Prize laureate – has provoked condemnations from the west, particularly the European Union. EU relations with Asean have become strained over the issue, with Asean nations saying that the EU has no business to comment on the internal workings of the Asian association.

The two groupings clashed again over the weekend on a separate issue. At the end of the summit, Mr Ali Alatas, Indonesia's foreign minister, complained that Portugal's attempts to make human rights questions in East Timor an issue in EU-Asean relations was becoming an "increasingly aggravating and irritating factor".

East Timor was annexed by Jakarta in 1976 but the United Nations still recognises Portugal as the administering authority.

Asean leaders registered their concern in a joint statement which said that the EU's stance on East Timor threatened to "jeopardise the tripartite process on East Timor presently taking place under the auspices of the United Nations secretary general".

Indonesia and Portugal have held talks under UN guidance since 1988 and the ninth tripartite dialogue between Mr Alatas and Mr Jaime Gama, the Portuguese foreign minister, is due to take place in New York next month.

Japanese in China venture

By William Dawkins in Tokyo

Nichimen, the Japanese general trading company, has announced a joint venture with China's largest general trader, one of the first Japanese companies to take such a step.

Nichimen is to set up an export-import business in Shanghai with China National Cereals Oils and Foodstuff Import and Export Corporation, to be 51 per cent owned by the Chinese partner and 25 per cent by Nichimen, with the rest in the hands of a third partner.

The new company is aiming for $5bn annual sales in food, machinery and electrical goods. This is believed to be China's second trading company joint venture with a foreign partner, following the recent establishment of a partnership between Daewoo of South Korea and a Shanghai-based export-import group. That was a consequence of a change in Chinese government policy in September to favour such joint ventures in Shanghai and the southern economic zone of Shenzen as a way to build the same kind of large general trader that helped create Japan's export success.

China's state-backed traders, mainly based in Shanghai and Shenzen, are small and lack a dependable source of funds. Like most of Japan's traders, Nichimen is affiliated with a commercial bank, Sanwa Bank.

Japanese trading companies have been expanding in China, their largest and closest emerging market. Seven other Japanese general traders, including Sumitomo Corporation, one of the largest, are also in negotiation with the Chinese government for permission to form such a joint venture.

The deal coincides with Japan's agreement to disburse Y580bn ($5bn) of soft government loans to China over the next two years, the latest sign of an improvement in their tense relations. The money will be used for 40 development projects.

Japanese grant aid to China remains frozen, following Tokyo's suspension of grants 18 months ago in protest against Chinese nuclear tests.

Copyright rules planned for Internet

By Frances Williams in Geneva

A step towards regulating the Internet will be taken this month with the adoption of international rules extending copyright law to cyberspace.

Representatives of more than 100 member governments of the World Intellectual Property Organisation, the UN agency that administers international pacts on patents, copyrights and trademarks, today begin a three-week meeting in Geneva to approve three new treaties intended to bring copyright rules into the digital age.

The move, which has the enthusiastic support of book and software publishers and the entertainment industry, is seen as essential if the Internet is to realise its full potential.

At present, very little copyright material is put legally on to the Internet because authors, publishers and performers fear they will lose income from unauthorised copying.

Unlike copies of "analogue" products such as printed books, video or audio recordings, which tend to be inferior to the authorised version, digital transmission allows perfect copies to be downloaded onto an ordinary home computer and re-transmitted to millions of Internet users at the touch of a few keys.

According to the Brussels-based International Federation of the Phonographic Industry (IFPI), which includes the six top recording companies among its 1,100 members, electronic delivery of music recordings could take 15 per cent of the $40bn global music business within five years.

Without strong copyright rules and enforcement, the scope for piracy – already running at over $2bn a year – would be enormous, IFPI argues.

The draft treaties being considered in Geneva would:

- Ensure electronic transmission (or on-demand broadcasting) of any copyrighted work is subject to the same rules on authorisation and royalty payments that apply to "hard copies" of works. The IFPI would like these rights extended to "near on-demand" or multi-channel services;
- Apply these rules even to temporary copies of the work (for instance, to music called up from an on-line "jukebox" but not permanently stored in the listener's computer).
- Forbid devices designed to erase or circumvent encryption techniques used to allocate royalties or prevent unauthorised copying.
- Protect databases, even where copyright material is not involved, which represent "a substantial investment" of resources.

Cardoso: his government will stick to its exchange rate policy

Large-scale devaluation ruled out as 'outdated' policy

Brazil to tackle trade deficit with export incentive package

By Geoff Dyer in São Paulo

Brazil has unveiled a new set of measures to stimulate exports in a further attempt to reduce the country's widening trade deficit. The initiatives, announced by Mr Antônio Kandir, the planning minister, include more government financing of exports, lower financing fees for exports and incentives to other countries to import Brazilian goods.

The measures are further evidence of a government intention to use specific and targeted policy measures to tackle Brazil's current account deficit, rather than adopting a significant shift in macro-economic policy. Economists broadly welcomed the announcement but said the measures would not restrain the strong growth in imports, which in recent months have led to the rising trade deficit.

Under the new proposals, the National Bank for Economic and Social Development (BNDES) will increase credits available to exporters from 85 per cent to 100 per cent of the value of the goods being exported.

The financing cost of BNDES credits will fall from 2 percentage points to 1 percentage point over Libor if an intermediary financial institution is also involved in the transaction and the list of products which qualify for the credits has been extended to include items such as software.

The government will for the first time provide bank guarantees to foreign companies importing Brazilian goods and it is also expected to present a bill to Congress this week exempting exports from a municipal tax.

The new measures come shortly after the government announced a $1.3bn trade deficit for October, which was well above expectations.

The trade figures led to increased speculation that the government will abandon its exchange rate policy of gradual depreciation against the US dollar, which has been the centrepiece of its two-year-old anti-inflation economic reforms.

Prompted by the growing calls for a devaluation, senior ministers and officials, including President Fernando Henrique Cardoso, took the step of publicly ruling out a change in exchange rate policy last week.

Speaking on a state visit to South Africa last week, Mr Cardoso rejected a significant devaluation as an "outdated" policy instrument which would benefit only a small section of the Brazilian population.

In recent months the government has announced several other measures to promote exports, including scrapping a value-added tax on exports of raw materials and semi-processed goods.

NZ parties spin out talks on coalition

By Terry Hall in Wellington

The New Zealand parliament is due to convene next week with still no agreement on formation of a coalition government after the country's general election on October 12.

Hopes for an end to the drawn-out negotiations between parties appeared to be dashed last week when Mr Winston Peters, whose party holds the balance of power, said a deal was "still some time off".

Mr Peters, leader of New Zealand First (NZF), has been negotiating for six weeks with Mr Jim Bolger, the current prime minister and leader of the caretaker National administration, and with Ms Helen Clark, leader of the Labour party.

Throughout the talks, and despite mounting public criticism of their slow pace, Mr Peters has made it clear he will not be rushed.

The deadline for conclusion of talks is December 10 when parliament reconvenes, although a deal may still have not been struck by then.

The October election was the first held by New Zealand under a proportional representation voting system, after nearly 150 years using the UK-style "first past the post" system.

The caretaker National administration is postponing most decisions until after a new government is formed.

But while most New Zealanders are sanguine about the absence of a government, this has led to paralysis in financial markets, with only modest daily movements in foreign exchange rates, interest rates and the share market.

While the party negotiations have been held in secret, Mr Peters is said to be trying to persuade both National and Labour to agree to a framework setting out the issues likely to face a coalition.

A big sticking point appears to be NZF's pledge to introduce compulsory pensions, a measure opposed by both National and Labour. Mr Peters last week reaffirmed his party's "non-negotiable" commitment to the compulsory pension plan, which he says must be introduced by July 1 to coincide with tax cuts promised by National.

In one of his few comments on the talks, Mr Bolger said that for technical reasons, July 1 was too soon to consider implementing a complex compulsory scheme, a change from the present voluntary system.

The absence of a government is known to have been causing headaches in the civil service. The Treasury was said to be having difficulties in preparing budget forecasts, as it has had no way of incorporating the likely fiscal consequences of a new government.

The Reserve Bank, New Zealand's central bank, is reported to have had related problems in framing its six-monthly economic statement, to be published later this month, which relies on the Treasury's fiscal forecasts.

A Labour-led government would want to use next year's forecast budget surplus to increase spending on social welfare and education. NZF wants to spend more, but not as much as Labour, while National has said it sees increased public spending as inevitable but wants to keep any increase to a modest level.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period ending	Provisional Price for Trading on 01.12.96 Pool purchase price £/MWh	Final Prices for Trading on 03.11.96 Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.68	13.73	13.35
0100	17.18	27.48	29.11
0130	18.57	27.48	29.11
0200	18.57	13.73	15.35
0230	18.57	11.57	13.25
0300	18.57	11.63	13.25
0330	18.57	11.66	11.66
0400	12.27	11.63	11.63
0430	11.68	11.63	11.63
0500	11.68	8.98	8.98
0530	11.68	8.98	8.98
0600	11.63	8.98	8.98
0630	11.64	8.97	8.97
0700	11.63	8.91	10.53
0730	11.64	8.91	10.53
0800	11.64	8.91	10.53
0830	11.63	11.62	11.62
0900	11.68	12.79	13.61
0930	11.68	12.32	13.94
1000	11.70	13.73	15.35
1030	18.57	16.56	18.20
1100	18.57	17.42	19.04
1130	17.16	17.42	19.04
1200	17.44	17.42	19.04
1230	17.44	17.42	19.04
1300	17.44	17.42	19.04
1330	17.44	17.42	19.04
1400	17.44	17.42	19.04
1430	17.44	11.80	11.80
1500	11.70	11.87	11.87
1530	11.89	11.84	11.64
1600	11.70	10.70	10.70
1630	11.70	11.65	11.65
1700	11.89	11.69	11.69
1730	17.44	18.71	18.20
1800	17.16	18.95	20.60
1830	24.71	18.95	20.60
1900	34.71	18.95	20.60
1930	22.78	18.95	20.60
2000	19.59	18.95	20.60
2030	17.44	18.47	20.09
2100	17.44	17.30	18.92
2130	16.57	17.50	18.92
2200	16.57	16.80	18.61
2230	16.57	14.24	15.87
2300	16.57	16.29	17.87
2330	11.70	11.64	11.64
2400	11.69	11.65	11.65

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 02.12.96 Pool purchase price £/MWh	Final Prices for Trading on 04.11.96 Pool purchase price £/MWh	Pool selling price £/MWh
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0100	11.70	10.70	10.70
0130	11.70	10.70	11.95
0200	11.70	10.70	11.95
0230	22.76	11.81	11.81
0300	11.70	11.61	11.61
0330	11.70	11.61	11.61
0400	11.69	11.51	11.61
0430	11.70	10.70	10.70
0500	11.70	8.98	8.98
0530	11.70	8.98	8.98
0600	11.60	11.61	11.61
0630	11.71	11.66	11.66
0700	18.43	10.15	13.40
0730	18.50	11.61	11.61
0800	21.33	17.63	19.18
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1030	49.33	26.35	27.51
1100	21.65	25.86	27.13
1130	21.66	12.20	12.55
1200	21.71	21.02	22.57
1230	21.02	23.83	24.83
1300	24.18	18.03	19.28
1330	13.83	18.02	19.27
1400	21.42	18.02	19.27
1430	13.79	18.02	19.27
1500	13.70	18.02	19.27
1530	13.79	18.02	19.27
1600	18.40	18.29	19.57
1630	18.43	18.29	19.57
1700	113.54	63.44	78.84
1730	146.30	118.51	130.15
1800	117.95	115.50	130.15
1830	51.58	48.59	56.04
1900	23.02	26.13	27.61
1930	23.08	27.42	28.50
2000	23.06	26.90	28.50
2030	21.07	15.55	20.93
2100	21.41	18.74	20.00
2130	21.52	17.85	19.18
2200	21.33	25.78	27.01
2230	22.51	22.16	23.20
2300	16.15	17.93	19.18
2330	11.70	13.48	14.73
2400	11.69	13.48	14.73

[illegible] Energy Settlements and Information Services Limited

INTERNATIONAL NEWS DIGEST

India in $1.8bn Russian jet deal

India has signed a $1.8bn deal with Russia to buy 40 Sukhoi-30 jet fighters in one of the largest defence deals between India and another country.

The contract provides for supply of aircraft, ground handling equipment, ground service equipment and technology transfers for overhaul and maintenance, the Russian Interfax news agency said. India and Russia will collaborate to develop electronic equipment for the SU-30 that will be installed in the Indian light combat aircraft.

The Sukhoi-30 NK is regarded as one of the world's best multi-role, long-range fighter aircraft. Eight of them will join the Indian Air Force in the next four months, plugging a critical hole in India's offensive capabilities against Pakistan and China. Defence experts said they would more than match the Mirage 2000-5 that Pakistan intends to buy from France. *Lisa Vaughan, New Delhi*

McDonald's move in Beijing

McDonald's, the US fast food chain, is to close its flagship store in the heart of Beijing to make way for a shopping plaza after holding out for two years against a removal order. The hamburger restaurant, just off central Tiananmen Square, will close from today and will be demolished, McDonald's said. It has agreed to move the restaurant, its first in Beijing and one of the largest in the world, to make way for a huge commercial and shopping complex to be built by Hong Kong's Cheung Kong (Holdings).

McDonald's had previously resisted the move on the grounds that it had signed a 20-year lease on the site on prime land in the centre of the capital. The fast-food chain will receive compensation for the move and has plans to open at least two more outlets in the vicinity. McDonald's has more than 100 restaurants in 15 cities throughout China. *Reuter, Beijing*

Palestinians take to streets

Palestinians took to the streets across the West Bank at the weekend to protest against the Israeli government's refusal to release political prisoners as agreed in the peace accords. The demonstrations reflect growing frustration among Palestinians over lack of progress in the peace process and disagreements over the long-delayed Israeli troop redeployment from the West Bank town of Hebron.

The demonstrations coincided with renewed criticism of Israel's policies on settlements and the peace process. Egyptian President Hosni Mubarak (*picture left*) accused Mr Benjamin Netanyahu, the Israeli prime minister, of destroying trust between Israel and its Arab neighbours through expanding Jewish settlements in the West Bank. Mr Abdel-Karim al-Kabariti, the prime minister of Jordan, in an interview with Maariv, the Israeli daily newspaper, yesterday accused Mr Netanyahu of inconsistency towards the peace process and of failing to have any coherent strategy since coming to power last May. *Judy Dempsey, Jerusalem*

Gold reserves of 'no value'

The $215bn of gold reserves held by the central banks of the world's leading economies are of "virtually no value" in interventions in the foreign exchange markets, according to a study* by the UK's Centre for the Study of Financial Innovation. The market in gold is so illiquid that an intervention using gold worth $1bn or more is almost impossible, says the study. Yet interventions using the same amount in money, to support or weaken currencies, are common.

Governments led by the UK have been lobbying the International Monetary Fund to sell some of its gold reserves, in order to help finance debt relief for poorer countries. However, Germany, Switzerland and Italy have so far opposed this lobby, partly because they fear coming under pressure to sell their own gold reserves as a way of funding domestic projects. *Simon Kuper, London*

**Central bank intervention: A new approach. CSFI, 18 Curzon Street, London W1. £25*

Hutu rebels fight in Burundi

Burundi's main Hutu rebel group yesterday said its forces had stepped up a guerrilla campaign inside the central African nation and fierce fighting was raging in the five regions. Mr Innocent Nimpagaritse, East Africa representative for the National Council for the Defence of Democracy (CNDD), said the fighting in the provinces of Kayanza, rural Bujumbura, Bururi, Rutana and Ruyigi had sent thousands of women and children fleeing into neighbouring Tanzania, which is already home to more than 700,000 Rwandan and Burundian Hutu refugees. *Reuter, Nairobi*

China takes a long road to convertibility

Stephanie Flanders on an important step towards accepting international norms

The Chinese government sent a letter to the International Monetary Fund last week to mark a milestone on China's way to becoming a fully fledged member of the world economy.

The announcement which came into effect yesterday said that, 51 years after becoming a founder member, China had decided to comply with one of the organisation's most hallowed principles – that all member currencies should be freely convertible for the purposes of international trade.

In the short term, making the current account convertible – by complying with the main conditions of Article 8 of the IMF's Articles of Association – will not make much of a difference to companies or individuals working in China. This is because the government has been following its usual strategy of formally announcing changes long after they have, in effect, taken place.

"The most important barriers to current account convertibility, such as the dual exchange rate system, were abolished with the reforms of the exchange rate regime carried out in 1994," argues Mr Lu Nan Ping, of the State Administration for Exchange Control (SAEC). It was then that China abandoned the most important trade-related restrictions on foreign exchange payments.

Yet even if the move was largely symbolic, the symbols were important. It was one of the most prominent examples yet of China agreeing to abide by international rules and regulations rather than its own. In that sense, the government's ability to stick by the IMF's conditions will perhaps hold lessons about China's ability to abide by the more demanding conditions of membership of bodies such as the World Trade Organisation.

"This will be test of their capacity to abide by the rule of law," says one western diplomat in Beijing. "As ever, the question will be whether the practice measures up to the theory."

Some foreign investors also wonder whether officials on the ground will always stand by formal rules of convertibility. But, by and large, the authorities are expected to stand by their new commitment, if only because compliance with the IMF's rules still allows plentiful scope for other forms of controls – both of trade and investment flows.

Mr Jim Walker, chief Asia economist for Crédit Lyonnais in Hong Kong, points out that convertibility does mean the state is agreeing to cede some control of the foreign exchange rate market to exporters and importers, at least at the margins.

The People's Bank of China is confident of managing the transition with the help of China's mounting foreign exchange reserves, which now have passed $100bn. Officials at the SAEC also have been working to ensure that China does not accidentally cede control of any capital account transactions in the process of making the yuan convertible.

The SAEC admits that freeing up trade restrictions usually makes it harder for countries to prevent capital flight. But they hope measures to tighten up the verification of exports and imports will prevent any serious attempts to dodge existing restrictions on exporting capital. Under these rules only foreign-funded enterprises can gain permission to have "special accounts" for profit repatriations and other investment-related transactions covered by Article 8. Most domestic companies will still be required to change their foreign exchange earnings into local currency on receipt.

Eventually, the Chinese would have to ditch all such controls for the yuan to be fully convertible for capital account transactions as well as those on current account. No one expects this to happen soon. But accepting Article 8 was certainly a move in that direction. Liberalising capital flows is not formally part of the IMF's mandate, and it has not yet explicitly discussed such reforms with the Chinese. Yet the organisation does have a general view of the best way to move towards full convertibility which the government could follow.

That would involve, first and foremost, removing quantitative trade restrictions such as import quotas and reducing and standardising remaining trade tariffs. This would come alongside the gradual removal of curbs on capital account transactions, with foreign direct investment flows and trade financing being freed up first, then portfolio flows, with constraints on capital inflows being removed before those on outflows.

Joining the WTO would be a logical next step on the way to full convertibility of the Chinese currency. Chinese discussions with the US on this matter have gained momentum in recent weeks with the trip by Mr Warren Christopher, secretary of state, to China and US President Bill Clinton's meetings with President Jiang Zemin at the recent Asia Pacific Economic Co-operation (Apec) gathering in Manila. Beijing has said it intends to reduce the average tariff rate to 15 per cent during 1997, from the current level of just over 20 per cent, but it is not yet clear how this is to be achieved.

Few expect Chinese moves toward further capital account openness to be anything but gradual. "Achieving full convertibility is all about building the right infrastructure," says Mr Shan Li, economist at Goldman Sachs in Hong Kong. He notes the recent decision to license some foreign commercial banks to do yuan business in China will provide some competition for domestic banks. But he doubts that moves toward wider convertibility can proceed independently of broader, more difficult reforms to sort out the state banking sector and loss-making state-owned enterprises.

"As long as they do the right things for the economy they're paying the way for full convertibility," he says. "But no one should hold their breath."

The chief US negotiator on textiles is scheduled to arrive in Beijing today in an effort to resolve a textiles dispute before China's threatened ban on selected US imports goes into effect on December 10, writes Sophie Roell in Beijing. Ms Rita Hayes of the US Trade Representative office was expected in China last month, but delayed her trip following Beijing's threat to impose a temporary ban on imports of some US textiles, farm goods and alcoholic drinks in retaliation for US penalties on imports of Chinese textiles.

NEWS: UK

Opposition's foreign spokesman dashes Franco-German hopes for flexibility

Prospects of multi-speed EU fade

By Robert Peston, Political Editor

Franco-German hopes that a victory by the opposition Labour party in the UK general election would improve prospects for a so-called "multi-speed" European Union look set to be dashed.

Mr Robin Cook, the party's foreign affairs spokesman, is understood to share the UK government's reservations about mechanisms for allowing groups of like-minded member states to move ahead in new areas of closer integration.

Labour's caution on these "flexibility" plans may undermine optimism among European governments that the current intergovernment conference on EU treaty reforms could reach a speedy conclusion next June if Labour is elected.

According to a senior MP, Labour is determined to retain a veto over integration initiatives by groups of states, particularly if they want access to EU institutions. Its views are similar to those of Mr Malcolm Rifkind, the UK foreign secretary.

"We would clearly want to prevent Germany racing ahead to federalism," said the Labour MP. Although not yet official party policy, Labour's wary stance on a more flexible EU will come as a blow to the French and German governments.

In October, France and Germany put forward joint proposals to allow EU members to integrate their economies and governments at varying speeds.

The issue is now at the heart of the IGC negotiations. France and Germany's desire to have the flexibility concept incorporated in the EU treaty was sparked originally by their concerns that the relative Euroscepticism of the UK government was holding back the closer co-operation sought by other states.

But a second factor, plans to enlarge the EU to the east, have since persuaded France and Germany that such an approach is essential. Closer integration could in their view become impossible if up to 30 EU members were required to move ahead at the same pace. The issue is expected to be among the more contentious items on the agenda for the government heads summit in Dublin in a fortnight.

Labour will decide on whether to make any statements on flexibility proposals only after the summit.

The disclosure of Mr Cook's views on flexibility will add to a growing realisation in European capitals that Labour's approach to the EU is only a little more enthusiastic about integration of member states than the ruling Conservative party.

European governments are still working towards a conclusion of the IGC in June, after the last possible date – in May – for the UK general election. In the absence of such an outcome, European Commission officials are openly speculating about the total collapse of the IGC process.

Banks support plan on rescuing big companies

By Jim Kelly, Accountancy Correspondent

Banks have backed an initiative to reform the so-called "London Approach" under which lenders co-operate to try to save big companies which run into financial trouble.

There is concern that the approach, also designed to recover debt, may fail to deal with cross-border corporate failures. A survey published today shows that 74 per cent of bankers surveyed would support a new international system of common documentation for loan agreements.

And 53 per cent backed the appointment of independent "ringmasters" who would mediate between different stakeholder groups.

Under the present system, the clearing banks head a steering committee to work out companies' problems. Decisions need the support of all the lenders.

The system has helped leading businesses such as Queens Moat House, Signet, Brent Walker, News International, Lep Group, Heron Corporation, Ferranti, Berisford, and Laura Ashley.

Price Waterhouse, the big accountancy firm, suggested that majority voting could be introduced in a new system and asked leading lenders and legal advisers for their views.

Although the survey relies on a sample of only 25, it does include the clearing banks, other big lenders, and leading legal experts.

Nearly 70 per cent backed common documentation while 56 per cent said independent ringmasters would help lenders and debt holders.

"Our survey shows that the lenders are ready to take action," said Mr Colin Bird, senior partner in corporate recovery and a former president of SPI – the insolvency practitioners group.

Meanwhile, a broader debate within the financial community about possible reforms is being encouraged by the Bank of England. The Bank hosted a conference earlier this year on the problem, which was attended by several central banks.

Eurotunnel stages test to win safety go-ahead

By Charles Batchelor, Transport Correspondent

Eurotunnel yesterday carried out a test evacuation of 500 people from a Eurostar train "trapped" in the Channel Tunnel in a demonstration designed to gain the safety authority's approval for the resumption of passenger services later this week.

The company hopes that the Anglo-French Channel Tunnel safety authority will today recommend that services can resume. But Eurotunnel still has to provide further details of its safety procedures and the intergovernmental safety commission has to approve the authority's recommendation.

Mr John Noulton, Eurotunnel director of public affairs, said the evacuation had gone smoothly. "This was not the winning post, but, it seems to me, it was a hurdle cleared."

A Eurostar train carrying staff, volunteers and their families from Eurotunnel and Eurostar was stopped 31 kilometres into the tunnel from the entrance in Folkestone, England, opposite the damaged section of tunnel to test the worst-case scenario. Power to a 5 kilometre section of the damaged tunnel at the site of the fire was been switched off.

Pascal Rossignol

Tunnel bound: volunteers board Eurotunnel's safety test run

The volunteers, including women, the elderly and disabled people, were evacuated into the central service tunnel and walked or helped two-and-a-half kilometres to where they boarded a waiting passenger shuttle train in the other "running" tunnel. The train then reversed back to Folkestone.

The evacuation was timed to take 2hrs, 5 minutes but took 5 minutes longer. The "emergency" was declared at 12.13pm and the rescue train reached Folkestone at 2.23pm.

Senior members of Eurotunnel's management, including Mr Patrick Ponsolle, co-chairman, and Mr Georges-Christian Chazot, chief executive, took part in the evacuation.

Eurotunnel sees the test as providing the green light for the resumption of both Eurostar services and its passenger shuttles. But it has no plans to restart the freight shuttles until the inquiries into the cause of the fire are completed.

In spite of the closure of a section of one of the two tunnels, Eurotunnel and Eurostar could reinstate more than 80 per cent of passenger services within a short time, reducing substantially the impact of the fire on its £1m of daily revenue.

Northern Ireland ceasefire hopes rise

By John Murray Brown in Dublin

Mr John Hume, the moderate nationalist who was instrumental in securing the first Irish Republican Army ceasefire, yesterday raised hopes that another ceasefire may be imminent. He said there was a "serious chance" of persuading the IRA to lay down its arms before Christmas.

The leader of the Social Democratic and Labour party, who has acted as intermediary between the British government and Sinn Féin – the political wing of the IRA – told BBC TV's *Frost on Sunday* there was "a clear indication that we can achieve peace if we apply our minds to it, without making political concessions". He said he would go back to the UK government to try to secure a "complete end to violence".

Mr Hume's optimism comes in spite of the refusal of Mr John Major, the UK prime minister, to soften the conditions for Sinn Féin's entry to the talks.

His comments contrast with the reaction of the Irish government to Mr Major's demands that the IRA has to show "in word and deed" that any renewed ceasefire was credible before Sinn Féin can join the negotiations on Northern Ireland's constitutional future.

The Rev Ian Paisley, leader of the Democratic Unionists, hardline opponents of a united Ireland, said Mr Major was offering "concession after concession" to secure a new IRA ceasefire. Speaking at his party's annual conference on Saturday, Mr Paisley said Mr Major was "in the capitulating business, the concession business and the sell- out business".

Mr David Trimble, leader of the Ulster Unionists, is in Washington today where he is expected to press the US administration to cut links with Sinn Féin.

UK NEWS DIGEST

Lender raises interest rate

The Abbey National is set to trigger the first round of interest rate rises among the big mortgage lenders for almost two years by announcing today it is increasing its borrowing rates by 0.25 per cent. The bank's new rate for mortgages below £60,000 ($100,200) will be 7.29 per cent, up from 7.04 per cent. The Halifax, the UK's biggest lender, said: "If the Abbey raised its rates, that would increase the likelihood of us having to respond."

The Halifax had intended to wait until the next meeting between Mr Kenneth Clarke, the chief finance minister, and Mr Eddie George – governor of the Bank of England, the UK central bank – on December 11 before deciding on its next mortgage rate move. Mr Clarke has been under pressure both from Mr George and from his external advisers to raise interest rates.

But Mr Clarke has predicted that underlying inflation, which excludes mortgage interest payments, would fall to 2.5 per cent by the end of next year. Abbey National said it was raising rates now because it did not think that base rates were likely to be raised again in the short term.

"If the Budget had been a giveaway, then another rate rise would have come soon and we would have waited until then to avoid having to raise rates twice," said the Abbey National. "This is really in response to the last rate rise six weeks ago." *Daniel Green*

■ BREWING

Pub group pledge may be relaxed

Inntrepreneur, the pub company owned by Grand Metropolitan and Foster's Brewing Group, is to be allowed to reverse a promise made to UK competition authorities in 1991 and continue its role as the sole seller of beer to its pubs beyond March 1998. The Office of Fair Trading, which insisted on the undertakings in 1991 when Inntrepreneur was formed, is expected to announce its decision within the next few weeks. Those rules forced Inntrepreneur to free its pub tenants by April 1998 from the "tie" agreement under which they must buy beer sold through Inntrepreneur.

A lifting of the undertakings would free Inntrepreneur to try to build the biggest independent pub chain in the UK, which would allow it to exact significant discounts from brewers. It would also allow Inntrepreneur to grow its "managed" estate in which pubs are run by employees, rather than by people leasing them. *Norma Cohen*

■ BANKING

NatWest may diversify

National Westminster, one of the UK's biggest banks, is considering selling office supplies, in what would be its first diversification outside financial services. The bank would aim to use its buying muscle to supply more than 3,000 stationery items to its own business customers and other companies.

The project comes at a time when the UK's banks are facing unprecedented competition in their core areas from other financial services groups and supermarkets. But the plan has run into opposition from the stationery trade and individual suppliers who are also NatWest customers. They say they will close their accounts if the plan goes ahead. NatWest said the scheme had been under consideration since the summer. *Christopher Brown-Humes*

Facts undermine hierarchy fantasy

DATELINE

Paris: the finer points of France's formidably intricate, élite *grandes écoles* system defy analysis, writes David Owen

My lunch companion looked up from his *raviolis aux écrevisses* and observed with a trace of mischief: "What you have to understand is that Noël Forgeard is an *ingénieur des mines*. Serge Tchuruk is only an *ingénieur des armements*."

As an explanation, however light-hearted, of why the French government picked Lagardère and not Alcatel Alsthom as its preferred buyer for the Thomson electronics giant, the remark was, on one level, reassuringly simple. (Forgeard is a leading light in the Lagardère missiles to magazines conglomerate; Tchuruk is chairman of Alcatel, the telecoms and engineering group.)

But it was also tantalisingly obscure to one not versed in the finer points of France's formidably intricate élite system. Perhaps that is why I found it so intriguing.

What was this mysterious hierarchy of engineers that was, jokingly at least, perceived to be so important that it could have a bearing on the choice of buyer for one of Europe's premier defence companies?

Might it have a similar bearing on other momentous decisions? If so, would a thorough knowledge of the pecking order lead to fascinating insights, scoops galore and untold riches?

It turns out the *mines* and *armaments* are two of the 11 so-called *corps d'Etat* which provide many of France's top civil servants in technical disciplines ranging from statistics to civil aviation.

Knowledgeable observers say that there is, in fact, no rigid hierarchy and that the identity of the *corps* which are most popular with aspiring members tends to change with the times. But the same observers are unanimous that the very best students enter the *corps des mines*.

That might strike some as bizarre, given how few mines are left in mainland France. But mining is no longer the prime focus of the education of an *ingénieur des mines*. These days, it chiefly provides theoretical and practical training on how companies work and on the responsibilities of the French state on technical and economic matters.

The numbers involved are tiny. Only 15 students per year are currently admitted to this ultra prestigious body, of whom 10 or 11 are drawn from the Ecole Polytechnique, along with the Ecole Nationale d'Administration, arguably the best-known of France's élite *grandes écoles*.

Since L'Ecole Nationale Supérieure des Mines, where the *corps* is based, is 213 years old – and since the typical intake in the 19th century was more like five students per year – that means probably only about 2,000 *ingénieurs du corps des mines* have ever lived. The school, near Paris's Luxembourg gardens, says that some 600 are alive today. They can claim with some justification to be the élite of the élite.

In the light of this, it is perhaps understandable that so many of France's premier industrial companies – Total (oil and gas), Usinor Sacilor (steel), Saint-Gobain (glass), Pechiney (aluminium) and so on – are today headed by members of the *corps des mines*. Though they are expected to work at least 10 years for the state, on pain of repaying a portion of their tuition fees, they are then free to enter the private sector.

Many large French companies, including some of this quartet, have, in any case, had a period under state control in recent years. That raises the question of whether the far-reaching privatisation programme on which France has embarked over the past decade will eventually loosen the grip of the *corps des mines* on so many top jobs. Do they still have the right skills to be running large industrial enterprises in an increasingly open and competitive trading environment?

After all, there is a growing tendency for the so-called *énarques* – graduates of the élite Ecole Nationale d'Administration – to be blamed, often preposterously, for all manner of ills in contemporary French society, usually on the grounds that their education makes them complacent and encourages them to believe that they know everything.

Marie-Solange Tissier, deputy director of the Ecole Nationale Supérieure des Mines, does not believe this expansion of the French private sector will "change things fundamentally".

The days are long gone, she says, when certain top jobs were reserved systematically for *corps des mines* members. Nowadays, if an *ingénieur des mines* is at the head of a leading French company, he is there on merit.

As for my hopes of useful insights, I shall regularly scan *Who's Who* to see which bodies and individuals in the running for important deals and appointments have links to the *corps des mines*.

But I fear that, even if one accepts that the *corps of ingénieurs* to which someone belongs really can be an influential factor, the sheer number of prominent *ingénieurs des mines* will limit the fruitfulness of the exercise. Serge Tchuruk may not be one. But Jean-Pierre Halbron, his strategy and finance director, is.

The Monday Profile: Paul Reutlinger, Sabena

A quiet enemy of the diktat

Old habits die hard at Sabena. Just as new chairman Paul Reutlinger was presenting to journalists a hard-won agreement with the unions recently, pilots of the Belgian national airline went on strike to mark their dissatisfaction with the deal.

However, in a demonstration of the Swiss-born Reutlinger's negotiating skills – and of how things are beginning to change at Sabena – pilots were back in their cockpits within hours. They had accepted without change the agreement on cost-cutting and new working practices aimed at returning the loss-making airline to profit by 1998.

True, the man put in by Swissair, which last year bought slightly less than half of Sabena from the Belgian state, was playing with a full deck. While appealing to the pilots' corporate loyalty and promising them improved representation, Reutlinger let it be known that Swissair's board was authorised to write off its $207m (£122m) Belgian investment at any time.

As one director put it, the Swiss were prepared to drop Sabena "like an old shoe" unless it started making money. And no Swissair might mean no Sabena.

Reutlinger, charged last March with getting Sabena in shape, is unusual. Born on a Swiss farm near the German border in 1943, he is a career Swissair man and veteran of previous postings in Brussels, Argentina and France. He has returned to Brussels as the only non-Belgian heading an important Belgian company, and one of only a few airline chiefs to head a carrier based outside his own country.

He is also the antithesis of his predecessor, the uncompromising Pierre Godfroid. About the time Reutlinger secured his union agreement, Godfroid published a vituperative memoir blaming almost everyone but himself for failure to reach a similar accord last year, and for subsequent, bitter strikes. Godfroid described Sabena's four unions with venom.

Reutlinger takes a pragmatic yet more collegiate approach. Towering physically, he is softly spoken to the point of reserve. Relishing the change from Godfroid, colleagues say Reutlinger shows a rare ability to engage with almost anyone.

"I am a very, very strong believer in dialogue. I don't have the conviction that *diktat* is what leads to success," he says. "I don't wish to present myself or the Swiss as something extraordinary, but I do think we have a democratic feeling which helps us much more to cooperate in a social partnership."

Reutlinger is far from soft, and nor is his deal. It involves cutting annual costs by BFr4.7bn ($152m) by 1998. BFr2.7bn will come from operational changes, including streamlining Sabena's motley collection of planes into a fleet based on one or two models, and getting out of loss-making short-haul routes.

The workforce must achieve the remaining BFr2bn of cuts, about 20 per cent through a two-year wage freeze, the rest split between more flexible working and 500 voluntary redundancies out of 9,500 staff.

How did Reutlinger do it? The first step, he says, was to restore a dialogue with the unions. After a self-imposed 100-day purdah while he criss-crossed the business to assess the problems, Reutlinger started meeting unions and staff.

"I had representatives of all the unions in the office, and asked them: 'Do you believe the survival of the company is only going to be realised through profitability?' And they said yes, they could live with that. That was our starting point."

But he left unions and his personnel director to thrash out exactly how staff savings would be made. He also offered two important concessions: guaranteed job security until 1998 for remaining staff and restoration of collective bargaining, broken off by Godfroid.

Observers were surprised the deal was struck with so little disruption. Reutlinger's aim now is to continue the dialogue through the two belt-tightening years ahead, and to instil in all staff the idea of profit-making.

"I think not everybody has changed the chip in his head. Everybody must understand the old times are over," he says.

Savings alone will not turn Sabena around. Next year will see an upsurge in competition with liberalisation of the EU's airline industry. Reutlinger wants to extend Sabena's long-haul network, but says an important factor will be making a success of its four-way transatlantic alliance with Delta of the US, Austrian Airlines, and Swissair.

All such alliances, he predicts, will need to create new, "family" brands, or "superbrands". That means cross-marketing by the partners, and a new corporate image.

"If consumers keep buying product X and finding themselves in aircraft Z, some time they are going to react. We have to create a sense of feeling at home, so a Belgian getting into an Austrian plane from Vienna to Kiev feels part of the family," says Reutlinger.

This multicultural Swiss, living in multicultural Belgium, seems well suited to the job.

Neil Buckley

FT GUIDE TO

Singapore

Isn't chewing gum banned there?
The old cliche. Yes, the sale of chewing gum is forbidden. Littering is also an offence. Plain-clothed patrols mingle with the crowds and people dropping litter can be fined or ordered to clean up a public place. The punishment isn't too arduous as most places are spotless. But those on cleaning duty have to wear clothing that identifies them as miscreants.

It sounds more like a school than a state. Why is it necessary to be so strict?
Singapore has few natural blessings. Its only real resource is people and there are only 2.98m of them. When it separated from Malaysia in 1965, it was a nation of shophouses, its future apparently so bleak that Lee Kuan Yew, the then-prime minister, thought that it would not survive economically.

How has it managed?
With little to fall back on, the island has turned efficiency into a national resource. (At the airport, you should clear immigration within eight minutes and the first bags should be out within 12 minutes.) Lee's government realised early that it was paramount to attract foreign investment. For this, it was necessary to have a disciplined and diligent workforce, harmonious labour relations, responsive civil servants, and, above all, a political system stable enough to allow the government to plan not years but decades in advance.

It sounds utopian for businesses. Is it?
By many yardsticks, the results have been remarkable. In a single generation, Singapore has gone from indigence to within a whisker of becoming a developed nation. Almost all families own their own flat. Life expectancy and infant mortality figures are better than in many countries of the West. The city's parks and avenues make it almost bucolic when compared to most of Asia's teeming capitals.

But at what cost have such advances come?
There have been costs, though they are less tangible than the successes. Chief among them has been the sacrifice of diversity. Confucius (his sayings are on posters in the subways) prescribed strict relationships of obedience, respect and filial piety between subject and state, student and teacher, son and father. And in a country run like a corporation, there has often been little room for alternative ideas.

With such economic growth, who needs diversity?
Obedience and cohesion are key attributes in an economy given over to export-driven manufacturing. But Singapore is now at a crossroads. The rising cost of wages, rentals and some utilities have eaten into the country's competitiveness. The government has recognised the need for creativity, not mere clockwork efficiency.

Will Singapore make the transition?
It may not be easy. Many workers are employed in the subsidiaries of multinationals where research and development tends to be scarce. The pervasiveness of state planning during the last two decades has meant that many people are more accustomed to being led than to leading. Schools have long emphasised learning by rote over innovative thinking and the local media are rarely critical of the government. Internet access is restricted.

Will the government now allow a hundred schools of thought to contend?
Unlikely. So far the approach has been systematic. The government has pledged billions of Singapore dollars for developing research and development facilities during the next five years. The aim is to foster creativity without forfeiting the qualities which have delivered the city-state's success.

Surely Singapore's future does not hinge on creativity alone?
No, it doesn't. The country has many industries which remain competitive and profitable. It is also a transport (airport and port) hub of unparalleled efficiency and an *entrepôt* economy which stands to benefit both from the steady liberalisation in regional trade and the rapid growth of Asia's two giants, China and India. The island's ethnic Chinese majority and Indian minority are already exploiting considerable opportunities.

With national elections to be held before April, what are the main issues?
Most people complain about the perceived high cost of living and housing. Some young professionals, when asked, say they are growing tired of the government's paternalism and want to be left to think for themselves. Others mention an economic slowdown this year which has prompted the government to revise downward its forecast for full-year growth to 6 per cent.

If people are complaining, does this mean the opposition has a chance of gaining power?
No. The opposition is too small to field candidates in enough constituencies to have a chance at government. The only real question is whether the ruling PAP manages to win more than 60 per cent of the popular vote – a level which many Singaporeans regard as an important benchmark. If they get more than 60 per cent, they have earned a mandate for their paternalistic, if not hectoring, style of rule. Less than 60 per cent might make people less willing to accept their guidance.

James Kynge

Robert Chote · Economics Notebook

Budget taxes Labour's ingenuity

The chancellor has posed a nice problem for his shadow colleague

Gordon Brown, the shadow chancellor, will spend Christmas pondering the tax proposals on which the UK Labour Party will fight the forthcoming general election. The combination of creative accountancy and wishful thinking which suffused last week's Budget has not made his task easier.

To be fair to Kenneth Clarke, the Budget was more responsible than one would expect at this stage in the electoral cycle. The £735m net tax cut he pencilled in for next year is worth about 0.1 per cent of national income, compared to an average of 0.5 per cent in the other pre-election Budgets introduced since 1979.

Including the £1.1bn that will be raised next year from the ongoing annual increases in fuel and tobacco duty announced by Norman Lamont in 1993, there will in fact be a small net tax increase next year. That will be augmented during the following two years by savings from the overdue abolition of tax relief on profit-related pay schemes.

This cannot disguise the fact that the official profile for the public finances still looks over-optimistic and unsustainable. An incoming Labour government – or a returned Conservative one – may well have to raise taxes significantly during the course of the next parliament. But how quickly will it grasp the nettle?

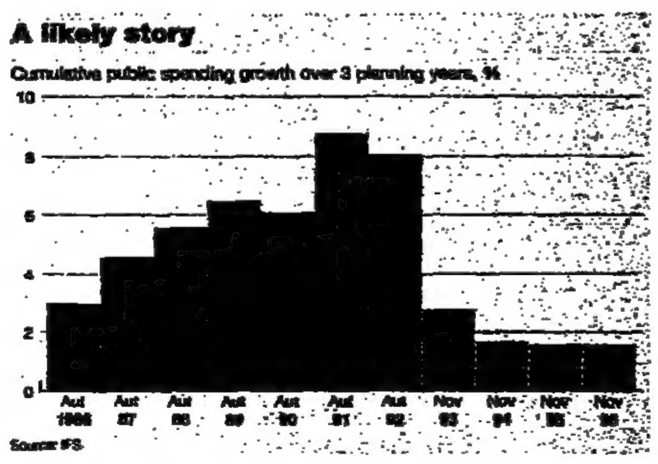
Although it was tighter than its pre-election predecessors, the Budget was not as restrictive as the Treasury's fiscal purists would have liked. Government borrowing is forecast to absorb 3¼ per cent of national income this year and 2¾ per cent next year. If the chancellor's central estimate that economic activity is about 1½ per cent below its sustainable level proves too optimistic – which it probably will – then the government is borrowing more than it should be at this stage in the economic cycle.

The chancellor is accused of massaging the budget deficit forecast lower with dubious wheezes. This charge is justified in some cases, less so in others.

Least objectionable is his decision to drop the conventional assumption that unemployment remains stable throughout the planning period for public spending. By assuming that the jobless total continues to fall he has "saved" almost £800m next year and more each year thereafter. This is entirely defensible – as long as he or his successors are willing to assume in future budgets that unemployment will eventually start to rise again.

Eyebrows have also been raised at the "spend to save" package under which the chancellor has allocated an extra £800m during the next three years to combat tax evasion and benefit fraud – and has assumed that this will save £6.7bn during the same period. The Treasury has been wary of such proposals in the past.

But the savings may be achievable. The Treasury has been sufficiently conservative to assume a savings-to-spending ratio of 5:1 in the case of benefit fraud rather than the 7 or 8:1 claimed originally by the Department of Social Security. But any estimate is inevitably very uncertain. The Institute for Fiscal Studies has rightly criticised the Treasury's decision to count these chickens before they have hatched.



Source: IFS

Another concern is the way public spending estimates have been massaged down by including government asset sales, such as Ministry of Defence married quarters and the student loan book.

In the case of the loan books, the Treasury's "line to take" is that repayment of these debts would have been counted as negative spending eventually, and that they are merely being brought forward. Fair enough, but have the spending estimates for future years been revised upwards sufficiently to take this timing change into account?

Finally, the plausibility of the government's spending plans is questionable. The Budget promised that current spending on patient services would rise by 3 per cent on top of inflation next year, for example, but most of this will have to be financed from the Department of Health's budget. The IFS argues that the department's plans now look "hopelessly tight". Something will have to crack.

And if spending does overshoot, the chancellor has left himself less room for error by chiselling away at the contingency reserve set aside for unforeseen spending. Last year Clarke shaved the reserve by £500m to help pay for tax cuts and, by unhappy coincidence, he is on course to overspend it this year by the same amount.

That is an unpromising backdrop against which Brown must decide what Labour should say on tax. The shadow chancellor is committed to the "golden rule" of public finances, by which the government should borrow no more than it invests when economic activity is at its sustainable level. In practice this suggests that he would wish to inherit a deficit of no more than 1 per cent of national income next year, leaving a £10bn black hole even on the Treasury's own figures.

There is very little room for manoeuvre for spending. Brown has indicated that there would be no extra money for departments in his first Budget – except that financed by the windfall tax on utilities, which Clarke has cleverly pre-empted by halving the tax relief for companies investing in long-lived assets. Sticking to this will be difficult, given the strains which key public services already face.

On tax, Brown is expected to make his intentions public next month. He has said he would like to cut VAT on heating bills in his first Budget and to introduce a 10p lower income tax rate. Labour was also reported at the weekend to be proposing a rise in the top-rate income tax threshold.

Brown will have to be careful. Some of these measures could be paid for by cutting remaining reliefs, although this would be seen – like Clarke's Budget – as giving with one hand and taking with another.

But, more fundamentally, Brown must consider whether he can put the government's finances on a sustainable path and shore up public services without raising tax bills for the bulk of middle-income voters. The fewer promises he makes before the election, the fewer he will have to break after it.

WORLD NUCLEAR INDUSTRY

A power needed but yet to be accepted

As the industry moves past middle age, the focus of attention turns to the science of nuclear gerontology, writes **Simon Holberton**

This is a year rich in anniversaries for the world's nuclear industry. It is the centenary of the discovery of radioactivity; it is the 40th birthday of the world's first commercial nuclear power plant at Calder Hall in Cumbria; and it is the 10th anniversary of the world's worst nuclear disaster, the fire at Chernobyl in the Ukraine.

Far from celebrating, the world has still to come to terms with radioactivity, or adequately deal with the legacy of Chernobyl. It wishes it did not have to rely on nuclear power, but can do little about it.

Industry executives and officials in nuclear think-tanks in Vienna and Paris believe the post-Chernobyl aversion to nuclear power is abating.

Some even think that the tide is beginning to turn in favour of nuclear power. Few dissent from the proposition, however, that these remain testing times for the nuclear industry.

Nuclear power provides about 17 per cent of the world's electrical generation. On the most pessimistic assumption of the International Atomic Energy Agency in Vienna, nuclear power will continue to account for 12 per cent of electricity generation by 2015. The nuclear industry is one of the few industries that thinks truly long term. However when it looks to the future it worries.

Between 2020 and 2030 some 108 nuclear power stations will be shut down in western Europe, accounting for about 92,000MW of installed capacity. That is equal to 1½ times the installed capacity of all forms of electrical generation in England and Wales today. The story is much the same for eastern Europe and north America. Fifty power stations will shut in eastern Europe accounting for 42,500MW; in north America 75 of the current 132 power stations will shut with a loss of 64,000MW of capacity.

> **Fifty power stations will shut in eastern Europe and 75 in America**

In the 1990s, the industry's great hope has turned out to be the environmental movement. This is an irony, given that the environmental movement led the attacks on the industry in the 1970s and 1980s and still today harbours suspicion about nuclear power. In spite of that, the nuclear industry is attempting to align itself with those concerned about global warming. The generation of nuclear power consumes little oxygen and produces trivial amounts of greenhouse gases.

However, history is a poor guide for governments making large-scale investment decisions on the strength of environmental considerations alone. In the deregulated energy markets of the west, nuclear power is simply not an option anyone can afford.

To build a 1,000MW nuclear power station would cost about £3bn and take up to 80 months to construct. A gas-fired power station of similar size would cost about £400m and take less than 24 months to build. Until there is a fundamental shift in prices, the case for nuclear power will not get a hearing.

Like Caesar's Gaul, the world nuclear industry divides in three parts: north American and western Europe; eastern Europe and the former Soviet Union; and east Asia. In each region of the world the industry is confronted mainly by challenges and presented with few growth opportunities.

In the developed west, the name of the game is preservation of knowledge. The proposed merger of Framatome, the French state-owned nuclear power plant manufacturer, and GEC-Alsthom, the Anglo-French engineering company, is a pointer to things to come. This is industry consolidation forced on participants because order books are virtually empty.

In France, Electricité de France is not expected to place any new orders for nuclear power plants before the end of the century. In Britain, British Energy, the nuclear utility privatised in July, gave up planning approvals to build three new nuclear plants nearly a year ago in the face of pressure that the company would be unsaleable if it still held on to the planning approvals.

With a lack of orders for the foreseeable future there is a serious concern that the industry is not attracting as many talented specialists it once used to, and that it runs the risk of forgetting how to operate a nuclear installation. The design of a power station could probably be fitted on a CD-Rom, but the knowledge that comes from working with power plants is not easily passed on to the next generation.

In the US, as elsewhere in the developed nuclear world, the science of nuclear gerontology is being developed. Much attention is being given to "life extension" of existing plant and to "late life" management of the plant in question.

The hope, however, of the nuclear gerontologists is that power plants with a design life of 40 years can be extended to 60 years. This may prove too ambitious a hope. Pressure vessels can be annealed and steam generators replaced, but one problem posed by older nuclear plants is the quality of their monitoring devices and the life expectancy of the miles of cabling that runs through a power station. Replacing the latter may well defeat the most determined life-extenders.

The nuclear industry, of all the utilities, has never been far removed from politics, and in the lands of the former Soviet Union and eastern Europe the wish of western political leaders to see the local nuclear power industry shut down is bumping up against determined local opposition.

The collapse of the Soviet empire has bequeathed unique problems to its former satellites. In the days of empire the nuclear industry was run from Moscow; there was little indigenous training in nuclear science. Today ethnic Russians still manage power plants in Lithuania and the Ukraine.

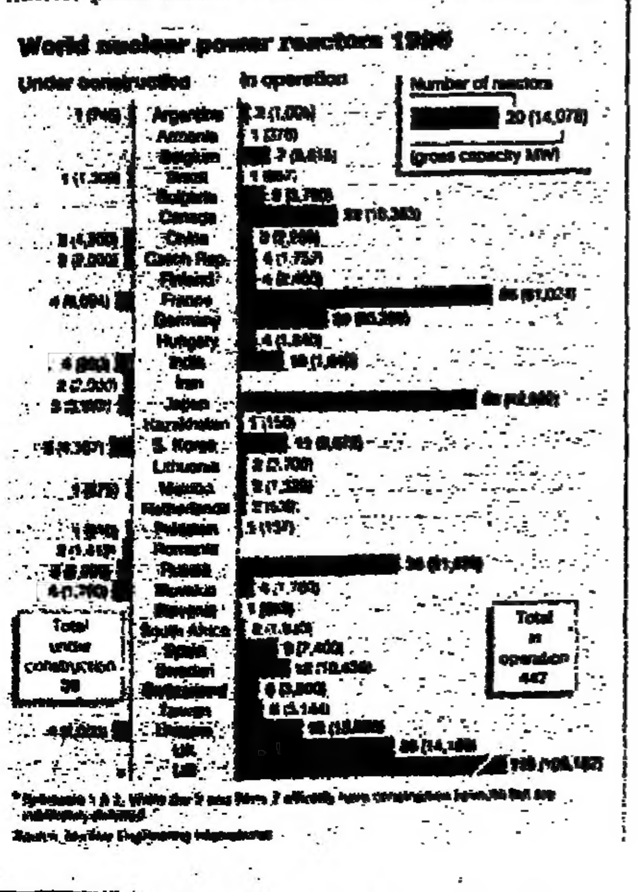
Lithuania operates two of the largest Chernobyl-type reactors which produce nearly 77 per cent of the country's electric power needs. The west wants to see their shut down, as it does Russian-designed stations in Bulgaria, Armenia and Slovakia where nearly half their power needs are met by the output of these reactors. They may not meet western safety standards, but, measured by load factor, they are among some of the most robust and reliable reactors in operation.

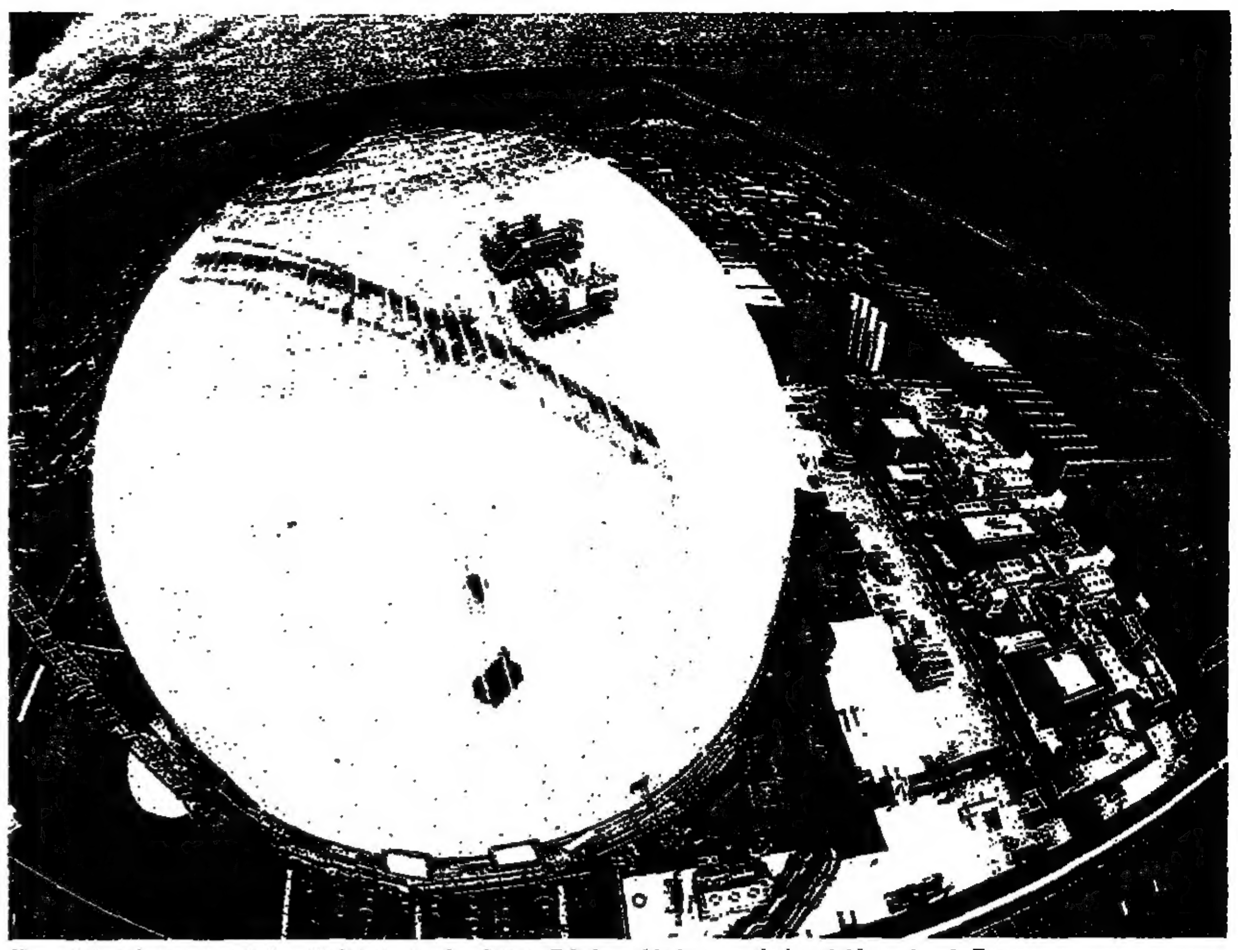
In this somewhat bleak review of the industry's prospects there is one shaft of light: east Asia. It is the area of the world which is expected to add new power stations to the world's inventory of 447. The only firm orders for commercial reactors in the past year were those for the Lin Ao – two 985MW PWRs of a French design – nearby Daya Bay in the southern Chinese province of Guangdong. The Chinese government, which brooks little dissent, is one of the few governments in the world that can ignore popular misgivings about nuclear power and push ahead with development plans.

Elsewhere in Asia, South Korea and Japan have extensive nuclear facilities under construction. South Korea is building five stations, with a combined capacity of nearly 4,200MW, while in Japan, three stations are under construction with a combined capacity of nearly 3,900MW.

Japan's plans to embrace fast breeder reactor technology received a set-back this year when a sodium leak at the Monju fast breeder reactor caused it to be shut down.

Monju serves to remind a sceptical world that in spite of 100 years of practice taming the nuclear tiger remains as difficult as ever.





Sizewell B nuclear power station: likely to be the last built in Britain and to be commissioned this century in Europe Ashley Ashwood

■ **Equipment manufacturers:** by Stefan Wagstyl

Recovery remains a distant hope

The emphasis has now moved to services, making spares, refuelling and planning

Nuclear engineering companies see little prospect of a significant recovery in orders for new power stations for at least the next 10 years. But they still face important challenges. First, they must compete keenly for the few construction contracts which are available. Next, they will have to fight for their share of the lucrative market in servicing power stations and supplying spares.

Finally, they must judge how much development work they should do to keep abreast of technological change and prepare for a possible resurgence in orders, should it come.

The commercial strains of coping with the collapse of orders which followed the 1986 Chernobyl disaster are forcing the industry to operate with the requirements of ever-increasing efficiency. In many ways, the industry's top executives have a more difficult job than when they were running their production lines at full capacity in the 1970s.

In north America and western Europe, the order books for new plant stand close to zero. There is a great need for modernising Soviet-designed plants in the former Communist bloc – but very little money to pay for the work.

Only in east Asia, notably in South Korea, China, and Taiwan is there a genuine desire for building new plants. But these projects take time to develop and are often delayed by domestic political debates in which concern focuses increasingly on environmental issues.

The bidding contests for these east Asian schemes bring intense price competition from the leading manufacturers – Westinghouse and General Electric of the US, Framatome of France and Germany's Siemens.

Asian orders are too few and far between to compensate for the lack of contracts in other parts of the world. According to the Nuclear Energy Agency of the Organisation for Economic Co-operation and Development, the industry has started work on only 16 reactors since 1990, compared with more than 30 a year in the 1970s.

Moreover, the deregulation of the world electricity industry is intensifying competition among power equipment suppliers. Utilities are no longer tied into cosy long-term relationships with domestic equipment suppliers. They can pick and choose from the international groups bidding for business around the world.

The equipment suppliers have reacted by shedding staff and trying to improve their efficiency. For example, in the past decade, Siemens has cut jobs in nuclear engineering from 10,000 to 3,500. Westinghouse has come down from 10,000 to 6,700. Framatome has mothballed factories and halved its nuclear engineering and construction staff to 3,000 since the mid-1980s.

The industry is also consolidating. Earlier this year, GEC-Alsthom, the power and transport engineering joint venture between the UK's GEC and Alcatel of France, announced plans for a merger with state-controlled Framatome. While the deal is by no means finalised, it is a sign of the commercial pressures in the industry that Framatome's existence as an independent public-sector entity could be over. The merger would be the biggest in the industry since ABB, the Swiss-Swedish combine, acquired Combustion Engineering of the US in 1989 for $1.6bn.

Given the lack of new orders, the industry relies on servicing, making spares and refuelling reactors. With some 435 reactors operating around the world, this is a substantial business with an estimated annual turnover of between $10bn (£6.4bn) and $20bn, excluding the work utilities do for themselves. Replacing spent uranium fuel rods is the biggest share of the orders.

Ten years ago, plant suppliers could rely on utilities to buy spares and fuel from the original equipment suppliers, which dominated their home markets. But the growing commercial-mindedness of utilities is encouraging international competition in servicing.

Companies are responding with increasingly sophisticated service packages designed to reduce the time for which a plant is shut down for an annual service. Siemens estimates that it has cut the average time in Germany from 35 days to 17 days. Westinghouse says that in the US, where regulations for servicing are different from Germany, the company has recently set a new record for completing a service – 22 days compared with 50 days three years ago.

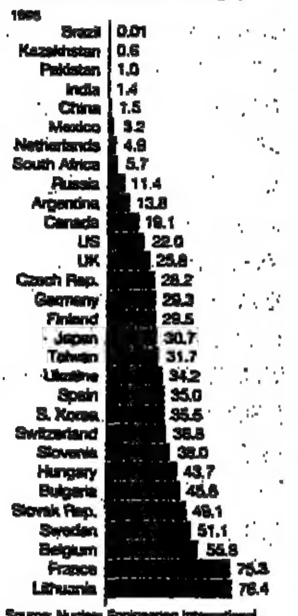
These gains have been achieved mainly by careful planning. Westinghouse says that at one time, services were planned a few weeks in advance. Today, services are planned a year in advance – so that the first steps are taken during the previous year's shut down. Also, the sub-contractors work has been integrated into the tasks done by the main contractor to prevent duplication and wasted effort.

All the large engineering groups have kept intact their design and development teams, despite the dearth of orders. They have devised the next generation of plants in which the safety systems are built around automatic self-correcting devices that shut a reactor in the event of a serious problem.

Such so-called passive features are being used in some commercial projects. But so far, no one has placed an order for a new generation plant, for those countries still buying nuclear plants prefer designs already in commercial use, preferably in regions with high safety standards, such as north America or western Europe.

Nuclear dependency (%)

1995



Source: Nuclear Engineering International

CASE STUDY GEC-Alsthom/Framatome

Fusion poised at a critical stage

The planned merger between GEC-Alsthom, the Anglo-French power and transport engineering group, and Framatome, the French state-controlled nuclear engineering company, has reached a critical stage.

When GEC-Alsthom, which is jointly owned by GEC of the UK and France's Alcatel, announced the proposed deal in August, it set itself an informal target of finalising the transaction by the year's end. With only weeks left before the holiday season, that deadline is fast approaching and looking increasingly elusive.

GEC-Alsthom believes that the merger would create a more efficient organisation, by bringing together two companies which already collaborate extensively, with GEC-Alsthom's expertise in the non-nuclear components of a power station complementing Framatome's knowledge of reactor construction.

GEC-Alsthom starts from a powerful position since Alcatel already owns 44 per cent of the stock. The rest is in hands of French state-owned entities such as Electricité de France.

Framatome is less than convinced about the merits of the merger. Proud of their record for leading the construction of the French nuclear programme, Framatome executives have questioned the need for the deal. However, the final say will be very much with their shareholders.

Alcatel is unambiguous in its commitment to the deal since it wants to raise cash by selling its stake to GEC-Alsthom. The French government, under pressure to control public spending so as to meet the conditions for European monetary union, is pursuing a policy of privatisation.

Even though France has long been reluctant to sell a stake in Framatome to foreign shareholders. Framatome was originally founded in 1958 as a partnership with Westinghouse of the US as Franco-Américaine de Constructions Atomiques. Developing Westinghouse's technology for pressurised water reactors (PWRs), Framatome became the world's largest nuclear plant builder. It played a vital role in the big expansion of France's nuclear-powered generating capacity after the first oil shock more than 20 years ago. The country now relies on atomic power for 70 per cent of its electricity.

But, with that programme now largely completed – and with the industry still to recover from the heavy blow it was dealt by the accident at Chernobyl in 1986 – demand for new nuclear reactors has dropped. Framatome, which has built 65 reactors altogether, currently has only four under construction: two in France and two in China.

As a result, the shape of the company has changed in recent years, with the nuclear division accounting for a somewhat smaller proportion of overall turnover and the construction of reactors accounting for a markedly smaller proportion of the group's nuclear activities.

According to recent company projections, reactors will this year account for only 13 per cent of Framatome's nuclear turnover, down from 56 per cent in 1994 and 61 per cent in 1991. The balance is made up of fuel manufacturing and support services and components. It has cut costs, diversified into electrical connectors and, armed with FFr6bn in cash, started looking for a third operation. Sales from nuclear activities are set to decline from FFr14.3bn in 1994 to FFr8.8bn this year.

Nevertheless, Framatome still looks to the future. It has a longstanding partnership with Germany's Siemens. For the past seven years, the two companies have been collaborating on the design of a new nuclear reactor, known as the European pressurised water reactor.

Stefan Wagstyl

■ **Developing Asia:** by Louise Lucas and Frank Gray

A highly emotive issue

Nuclear energy remains central to the power plans of most countries in the region

Nuclear power is an emotive subject in China and its neighbours. In Taiwan, the state utility's fourth nuclear plant triggered violent reactions from opponentsand, in both Hong Kong and southern China, the Daya Bay nuclear plant, based 30 miles from the territory, has been a source of concern.

Taiwan has been the scene of the biggest anti-nuclear protests in recent months, with Taiwan Power Company's fourth nuclear power plant attracting volleys of local criticism.

GE Nuclear Energy of the US last May won the overall contract to supply the nuclear island the design, equipment and fuel for the $1.8bn project. Taiwan Power has asked GE to arrange the supply of two 1,350MW advanced boiling water reactors. The GE team on the project includes Black and Veatch, Hitachi, Mitsubishi Heavy Industries, Shimizu, Toshiba and other Taiwan and foreign companies.

Hitachi, like its peers, has hopes to capitalise on Asian demand: figures compiled by the Japan Atomic Industrial Forum, a government affiliated institution, show there were 28 nuclear power plant projects in Asia at the end of last year.

However, its experiences in the Taiwan project suggest the going in Asia will not be smooth. The first round of protests forced the government to cut funding for the projects; at the vote to restore funding opposition groups in the legislaturepulled out all the stops, including trying physically to bar Mr Lien Chan, the prime minister, from entering Parliament to speak.

"Nuclear power has a long history in Taiwan; the trouble is that it's now got political," says one analyst. The ramifications of this spread far beyond environmental activists and there is no shortage of other non-nuclear power stations and infrastructure to attract investment.

Daya Bay has long been a source of contention in Hong Kong. In 1986, Beijing was presented with a petition carrying more than 1m signatures protesting at the construction of the plant. Hong Kong itself has no nuclear power, but the proximity of Daya Bay has turned it into a Hong Kong concern. But this has not stopped all investors. China Light and Power, the biggest of Hong Kong's two electricity suppliers, has a 25 per cent stake in the $4bn Daya Bay nuclear power plant in southern China and is contracted to buy 70 per cent of its annual output. Framatome, lead contractor for the two-unit 1,800MW Daya Bay complex, last year was awarded a contract to duplicate the scheme with a similar complex at nearby Ling Ao.

The plant was formally opened in February 1994, when the first unit went into commercial operation, followed by the second unit three months later. Operation since then has been far from smooth: in its early days it was hampered by a number of safety problems and in April 1995 one unit was closed down for three months after a reactor failed a safety test. At the same time, the second of the plant's two reactors was shut down for maintenance and refuelling.

As far as many Hong Kong citizens were concerned, the incident underlined their concerns over the stationing of a nuclear plant so close to the territory and its 6m population. Legislators have called for independent monitoring of Daya Bay on a number of occasions – and in each case been disappointed.

While strict new regulations were imposed at Daya Bay – as at nuclear plants around the world – in the wake of the Chernobyl incident, activists are concerned that a large accident could still happen. And in this event, they say, all areas within a 50km radius of Hong Kong would be hit.

While China's nuclear power plant programme is advancing – it is tying up a $2.5bn deal with Atomic Energy of Canada for two 700MW heavy water reactors – nuclear plans elsewhere in Asia are at a more developmental phase.

Indonesia is on the verge of selecting a supplier of its first nuclear reactors, which will be located at central Java's Mt Muria peninsula. Newjec, a Japanese consultant, has completed a feasibility study, and the main suppliers, such as AECL, Framatome, Siemens, GE and Westinghouse, have been lobbying for the initial contract.

Batan, the national atomic energy agency, has outlined plans for 12 commercial reactors, to be located on Java and Bali. The first award likely will be for the initial 1,800MW of capacity, either in the form of two 900MW reactors or three 600MW units.

Thailand's Electricity Generating Authority (EGAT) had ruled out a nuclear option several years ago, but this summer it said that a nuclear project was once again up for discussion. Nuclear options are also being considered for the Philippines, Vietnam and even Bangladesh, though in the latter two cases, financing will be a large problem. It is understood Vietnam is considering Russian or even Chinese technology.

China is exporting nuclear technology to Pakistan in the form of a 600MW reactor being built in Punjab province. Pakistan already has an obsolescent 125MW unit built by CGE of Canada outside Karachi, but its refusal to sign the nuclear non-proliferation treaty has led to its being frozen out of access to western nuclear technology. The China plant is pledged to be open to western inspection.

The same embargo applies to India, which has just 1,840MW of nuclear capacity. Nevertheless, the Department of Atomic Energy this month has set a target of 20,000MW of nuclear capacity by 2020. Initially, India had hoped for Russian help to expand its nuclear capacity, but the collapse of the Soviet Union seriously delayed the programme.

Frank Gray is editor of Power in Asia, *an FT energy newsletter*

■ **Japan:** by Gwen Robinson

Set on the nuclear path

There are special concerns about the safety of plant operation and waste disposal

Japan's nuclear energy programme stands alone on two counts. First, it is the only one among advanced industrialised countries to remain at the front line of general energy policy and uphold the development of fast-breeder reactors. Second, the government has continued to bolster nuclear reactors as the ultimate energy source for a country almost entirely dependent on imported fuels.

Mr Ryutaro Hashimoto, the prime minister, reinforced the view in his stark observation that Japan "has no alternative but to consider nuclear energy a main power source."

The plans call for at least 40 per cent of the country's entire energy requirements to be nuclear-generated by the year 2010. Currently, about 32 per cent of Japan's power supply comes from nuclear reactors.

The government is also determined to attain self-sufficiency in nuclear fuel supply and has built reprocessing facilities in Rokkasho, in the northern region of Aomori, scheduled to begin recycling nuclear waste into plutonium in 2005.

"Our policy calls for the complete recycling of all spent fuel from the nuclear plants, so we must plan for a second reprocessing plant to treat all the spent fuel generated from all the nuclear plants," said Mr Motoshi Shinozaki, of the Science and Technology Agency's Atomic Energy Bureau. "The ultimate goal for Japan is to have a completely self-sufficient recycling system so we don't have to purchase new uranium." Japan currently ships most of its nuclear waste overseas for recycling through British Nuclear Fuels of the UK and Cogema of France.

The third – and, for the government, potentially most troublesome – feature of Japan's nuclear energy programme is increasing public opposition amid concerns about the safety of both plant operation and nuclear waste disposal.

The Japanese nuclear industry has a particular image problem stemming from an accident at the country's first and only experimental fast breeder reactor, located in western Japan. The plant, known as Monju, was shut down following last year's leak of three tonnes of non-radioactive sodium coolant. Subsequent investigations revealed that officials at the plant's state-owned operator, the Power Reactor and Nuclear Fuel Development Corporation (PNC), or Donen, concealed facts about the leak and hid video-taped evidence.

The cover-up revelations did as much damage as news of the accident itself in terms of arousing public hostility and suspicion toward the FBR programme. Monju remains shut down while a government investigation continues, and plans for constructing the next FBR have been put on hold. The final report on the Monju accident is expected by the end of the year, and a special committee to be formed by then is to review the entire FBR programme.

Public opposition to the government's overall nuclear reactor construction programme reached new strengths in a landmark referendum held in August in the northern town of Maki, when residents gave a resounding "no" vote to the proposed construction of a nuclear plant in the vicinity.

The reprocessing programme, also, has drawn domestic opposition, primarily on seismological fears. Such concerns have ballooned since the 1995 Kobe earthquake. Critics have pointed out that Aomori, where the high-level radioactive waste will be stored, is an earthquake-prone region. The government has argued that recycling is the most efficient way of handling spent nuclear fuels because storage is not viable.

As more units come on line, the amount of spent fuel stored at power plants has sharply increased and in some cases, has neared the plants' storage capacities. Overall, the amount of spent nuclear fuel stored in Japan has risen 80 per cent from five years ago to 5,122 tonnes by March 1996.

In response to growing controversy over the nuclear waste issue, the government's Natural Resources and Energy Agency in late November announced it was considering building facilities for the temporary storage of spent fuel until the waste could be reprocessed or disposed of. The plan, however, is bound to generate more public opposition, particularly in areas being considered as potential sites for storage facilities.

While doubts hang over the FBR component of the nuclear energy programme, Japan is moving ahead with the construction of conventional reactors. However, plans for more pressurised water reactors, initially the favoured type of unit, have been jettisoned since an accident in 1991 at a PWR plant in Mihama, western Japan, – in favour of boiling water reactors.

In early November, the country's first advanced boiling water reactor – and 51st nuclear unit – began operations in the central region of Niigata. The Japanese BWRs, based on a design by General Electric, are made by groups led by Hitachi and Toshiba. The Mitsubishi group, led by Mitsubishi Heavy Industries, specialised in PWRs but has no more orders to build in Japan and is looking to growing demand for nuclear reactors in the Asian region.

However, Hitachi and Toshiba in October became the first two Japanese entities to win outside contracts for nuclear reactors, when they gained an order from Taiwan for two BWRs. The two Japanese groups in a consortium with GE will start constructing the units in Yenliao, outside Taipei, in early 1998.

■ **The BNFL/Magnox Electric merger:** by Simon Holberton

Waves in the wake of a sell-off

Tensions remain within the merger partnership hindering strategy execution

Nuclear Fuels Limited, the state-owned nuclear waste management company, celebrated its 25th birthday this year during a period of far-reaching change in Britain's nuclear industry.

In the summer, British Energy, a nuclear utility cut from the heart of the state-owned nuclear sector, was privatised. This was followed in the autumn by the sale of AEA Technology, the commercial arm of Britain's Atomic Energy Authority.

As with other, more conventional parts of the electricity supply industry, Britain has led the way with the privatisation of state-owned nuclear assets. Although the price the government obtained for British Energy (£2.1bn) was well below the £2.6bn the British government had hoped to raise, the larger issue for ministers was the transfer to the private sector of some £14bn of nuclear liabilities.

Nuclear liabilities is likely to be the topic which dominates BNFL's merger with Magnox Electric. It is a proposed merger that will be negotiated in Whitehall and which will have important implications for the sort of company BNFL can become.

Magnox owns the nuclear assets which the UK government could not sell: six operational power stations and three in various stages of decommissioning. It could not sell these power stations partly because they were nearing the end of their useful lives, but mostly because when an accountant looked at the financial shape of Magnox an excess of £1.3bn of liabilities over assets was discovered.

Taking on these liabilities is something that BNFL is doing its best to resist. Mr John Guinness, the chairman, has said that BNFL would regard it as unacceptable to have its own financial position weakened by a merger with Magnox. Mr Mark Baker, Magnox chairman, has also lent his support to this view.

It remains unclear, however, whether BNFL will be successful in resisting the Treasury's understandable desire to see nuclear liabilities follow nuclear assets. This *is especially so given that BNFL,* so long outside the borrowing restraints of the government's public sector borrowing requirement (PSBR), was unable in 1994 to stop the Treasury bringing it within the definition, and therefore the constraint, of the PSBR.

Furthermore, there is the government's own considered reasons for the merger. Magnox and BNFL *have a symbiotic relationship: Magnox* generates fuel for reprocessing and BNFL reprocesses fuel. Indeed, BNFL embarked on a cost-cutting programme two years ago primarily with the aim of keeping its costs of processing Magnox fuel to a level which enabled Magnox to keep its head above water.

Merging the two companies, the government observed in a May 1995 white paper on the prospects for the nuclear industry, "would eliminate the mismatch between financial and management responsibility and the problems arising from it, and give BNFL a clear incentive to maximise income from Magnox generation and minimise reprocessing and other back-end costs."

The need to merge – and a date of *March 1998 has been set* as the date by which the marriage should be consummated – comes at a time when *BNFL is feeling optimistic* about its future prospects. The company clearly has a lead in advanced waste management techniques and this has enabled it to win some large consultancy contracts from the US Department of Energy to assist in cleaning up former nuclear sites operated by the US military.

Its THORP reprocessing plant *has orders for its first 10 years of* operation and has gathered orders equal to a further four years of the *following 10 years.* However, the economics of the plant remain questionable with net income from reprocessing activities amounting to £50m year for the first 10 years, or a return on assets of around 2 per cent. Moreover, the plant has been dogged by delays and an acceleration in throughput to catch up inevitably means an increase in radioactive emissions – a contentious issue within and without government.

At the end of August, BNFL announced a far-reaching management reorganisation. The company has embraced a matrix-management structure. Four global business groups were created – fuel, Magnox, THORP and waste management and decommissioning – and alongside these were established seven functional groups. Observers of BNFL believe the new structure has been introduced to bring cohesion to a company that, because of its decentralisation, has often been at odds with itself. This is especially so with divisions between the company's Risley headquarters in Cheshire and its main operations at Sellafield *in Cumbria.*

More in the language of the management consultant, Mr John Taylor, *the company's newly-appointed* chief executive, explains: "The business groups will be responsible for both strategy and development and implementation against agreed goals and measures. Full profit and loss accountability will be vested with the business group executives.

"The priority for the functional groups is to enhance performance in our organisation to achieve world class performance whilst significantly reducing costs. We will be concentrating on specific products and markets and on providing our customers with a first class service."

BNFL has set itself an ambitious agenda. The industry in the UK will be watching closely for the terms on which it absorbs Magnox and the extent to which that deal hinders or enables the company's strategy.

PROFILE AEA Technology

Privatisation with benefits

AEA Technology, the UK science and engineering *group, sees its privatisation* earlier this year as strengthening its ability to *seize nuclear opportunities* in a global market.

The company, spun off from the UK's Atomic Energy Authority in 1994, and then sold to private investors for £224m in September, says its uniqueness lies in being able to offer an exhaustive range of nuclear services.

These range from safety work to decommissioning, the supply of technology and carrying out research on behalf of customers.

Although it is also keen to diversify further out of the nuclear business, which accounts for 54 per cent of its sales, AEA Technology sees the nuclear industry as a crucial long-term source of earnings.

Sir Anthony Cleaver, the company's chairman, says he "can see business [in the nuclear area] for 30 to 60 years", pointing out that in the UK alone, "we are just beginning to decommission nuclear reactors".

Mr Rob Thomas, business development manager for nuclear services, sees two international markets as particularly promising.

One is the US programme to clean-up disused US military sites which he says will be worth "hundreds of billions of dollars". "We're looking at a programme of work over the next few decades [which is] of the same order of magnitude as the investment creating nuclear weapons technology in the first place," he says.

The second is the market for making safer and cleaning up some 60 nuclear reactors in eastern Europe and the former Soviet Union. But a big challenge is "how it is going to be funded."

So far most of the contracts have been on a relatively small scale, valued in hundreds of thousands of pounds rather than millions. Many of them awarded by multilateral institutions, although one deal clinched by AEA Technology was from the Slovak government. Worth £650,000, this was to supply robotic technology for the *safe decontamination of the* reactor hall at the Bohunice power plant.

A related problem is that much of the work so far has been to study, rather than fix, the problems at reactors of the type which caught fire at Chernobyl 10 years ago.

Mr Thomas says that, short of getting more help from the west, the "only hope" for the local power industry to generate funds for solving some of the problems will be to introduce market prices for electricity. Closer to home, recent deals have included a £2m contract from the UK Ministry of Defence to decommission a reactor at the Royal Naval College in Greenwich used for teaching navy officers about reactors on nuclear-powered submarines.

Key steps include surveying the site, separating low-level waste from more dangerous nuclear detritus, and then removing it in a way which satisfies public sensitivities over things nuclear.

Where will the waste go? Mr Thomas says this has yet to be decided, but one option may be to send part of it to the Sellafield plant operated by its customer and competitor, BNFL, and another part of it to a low-level waste disposal site at nearby Drigg.

Unlike BNFL, the state-owned nuclear fuel reprocessor, the one thing AEA Technology does not have is ownership of its own nuclear facilities.

This was claimed as an advantage at AEA Technology's privatisation because it meant that the company had few nuclear liabilities with which to scare potential investors. But it also means that the one service AEA Technology cannot provide directly is facilities for handling nuclear waste.

Leyla Boulton

■ **Russia and eastern Europe:** by Simon Holberton

But really how safe is safe?

Improvements involve not just finance and standards but also communities

Mr Jozef Misak, chairman of the nuclear regulatory authority of Slovakia, is warming to his theme and then he asks: "How safe is safe?" It is not a question raised by nuclear regulators in the west who prefer to talk in terms of continuous safety improvement, rather than any fixed attainable level of safety.

But *in the lands formerly* in the sphere of influence of the Soviet Union it is a *pressing problem. On the* issue of safety turns the ability of the authorities to continue *operating Soviet-made* nuclear stations which produce much-needed electricity *for economic reconstruction* and development.

"We're doing everything we can to *improve the safety* of our plants," says Mr Misak. "But the plants we *have were built to earlier* standards of safety compared with the present. Safety is not as simple as it looks; there is no safety standard valid for everyone, it depends on the country."

Nuclear power provides 50 per cent of Slovakia's electricity needs and this power is generated at power stations which the west regards as inherently unsafe. These are the WWER 440/230 reactors, two of which are located at Bohunice, that the Soviet Union exported to its satellites in the late 1970s.

Throughout the former Soviet bloc there are 11 WWER 440/230s in operation, including one in Armenia that was shut down in 1989 after an earthquake. Their main design faults were enumerated by the Vienna-based International Atomic Energy Agency in 1994: reactor pressure vessel embrittlement; *limited emergency core cooling* capability; insufficient redundancy; deficient instru*mentation and control* systems; insufficient internal and external hazards protec*tion; and the lack of contain*ment in case of a severe accident.

The RBMK reactors, like the one that caught fire at Chernobyl, were not exported *beyond the borders* of the Soviet Union. But, with the collapse of the union, RBMK stations are now operating in two independent states – the Ukraine where one of the two in operation at Chernobyl was closed down over the weekend, and Lithuania where two stations generate more than three-quarters of Lithuania's electricity. The IAEA says "major safety" concerns are related to the first generation of RBMKs of which four are still operational in Russia (at St Petersburg, Kursk and Chernobyl).

One of the systemic problems besetting the nuclear industry in the east, especially the former Soviet Union, is that of technical competence. The Soviet nuclear industry was run *from Moscow.* It dispatched the trained personnel to work in Soviet-designed *nuclear stations. Officials at* the IAEA estimate that ethnic Russians still account for *90 per cent of the skilled* workforce at plants in the former Soviet Union.

Even in Russia where skilled technicians exist the failure of the state to pay workers' wages and *salaries* led this month to two plants staging strike action. The workers *said safety* would not be compromised but officials in the west worry.

The centralised Soviet nuclear effort also undertook to handle nuclear waste and reprocess spent reactor fuel on behalf of stations in the empire. Those undertakings have evaporated in the aftermath of the collapse of the empire. This has meant that nuclear stations, with limited and now virtually full on-site ponds for spent fuel storage, are having to improvise in how they store it.

Another problem, as always, is money. Take Chernobyl, for example. As the origin of a nuclear nightmare 10 years ago it has been the understandable focus of intense western attention. A year ago it was agreed in Canada at a G7 summit that Chernobyl would be closed by 2000. But the issue of who should pay seems unresolved.

The Ukraine authorities want $3bn in grants and *credits to upgrade their* nuclear industry. If they are going to have to close the *plants at Chernobyl* they want two unfinished Russian plants – built to a higher standard than the RBMKs at Chernobyl, but still behind the West in terms of safety – completed.

The European Bank for Reconstruction and Development *(ERDB)* has taken the lead in putting the G7's words into deeds. It has commissioned a study – being conducted by the Science Policy Research Centre at the University of Sussex – to advise it on the appropriate course of action for the Ukraine.

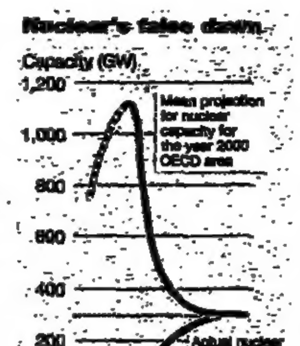
Then there is the stability of the "sarcophagus" entombing unit 4 at Chernobyl. It had a design life of 20 years, but after 10 years it is clear that it will not meet this target. Cracking has begun to appear. A new concrete shroud – which the Ukraine authorities claim would cost $1.5bn – is needed. The Ukraine budget might be contentious but the *replacement of the current* sarcophagus will be complicated if only because it will *have to be big enough* to allow for work to be done to dismantle unit 4 when it is *safe to do so.*

One of the bigger problems weighing on the minds of *policy makers, is the social* dimension of closing nuclear plants. In the former Soviet *Union, in particular,* industrial society (and the exercise of social control) was organised around the work place: it provided a cradle-to-grave system of benefits.

"What to do with the people working at these plants *is a big problem,"* says Mr Friedrich Niehaus, an expert at the IAEA on Soviet reactors. "These are not just nuclear plants; they are whole cities and communi*ties that have nothing* else other than the nuclear plant to provide them with a liveli*hood. Some of these* communities are as big as 30,000 ... What are they to do with the people if the whole city has to close down?"

One thing is certain, the West does not want to pay.

Nuclear's false dawn



■ **Waste management:** by Leyla Boulton

A bargain with the devil

People are hostile to secrecy and waste being dumped in their backyards

Professor Alvin Weinberg, a leading US physicist, remarked back in 1969 that the nuclear industry had concluded a Faust-like bargain with the devil: in return for cheap and abundant electricity, it would have to look after dangerous radioactive waste that could not be eliminated for thousands of years.

Three decades later, nuclear states are still *looking for lasting solutions* to a problem which has become even more pressing as reactors *built in the hey*day of nuclear power approach the end of their working lives.

This will add waste from decommissioning to the queue *of waste from* the ordinary operation of nuclear power stations, although much of *it can be* left to "cool down" for decades before requiring final disposal.

Other types of waste, such as cladding from spent fuel rods, classed as intermediate-level waste in the UK, require a home as soon as one can be found. At the moment, much of this waste is accumulating at the nuclear power stations at which it is generated.

Ms Rachel Western, a nuclear industry expert at Friends of the Earth, the environ*mental pressure* group, argues that waste is not just a headache but an opportunity *for the industry.*

"The future of the nuclear industry is in clean-up, and not so much in construction," she argues. But finding a final resting-place for nuclear waste is bedevilled by two problems: disagreement on the safest way to dispose of it, and the hostility of local communities to hosting nuclear waste "dumps".

UK Nirex, a state-owned company, faces local opposition to building an underground *laboratory near Sel*lafield in Cumbria to explore the possibility of siting a repository *there. Cumbria* County Council, whose rejection of planning permission for the so-called Rock Characterisation Facility (RCF) may yet be overturned by the government, *fears that* the laboratory could be a Trojan horse to force *through a repository.*

Decommissionings: 2020-2030

Western Europe		Eastern Europe		US/Canada	
Belgium	4	Armenia	2	Canada	[illegible]
Finland	3	Bulgaria	5	US	67
France	33	Czech Rep.	4	[illegible]	[illegible]
Germany	17	Hungary	4		
Netherlands	2	Kazakhstan	1		
Spain	6	Lithuania	2		
Sweden	12	Russia	27		
Switzerland	5	Slovakia	4		
UK	26	Slovenia	1		
Total	108		50		75

Notes: Assuming one MW per plant of 850M

W Europe will lose 91,800 MW
E Europe will lose 42,500 MW
N America will lose 63,750 MW

Source: British Energy

Keeping the waste above ground has been mooted as an alternative solution by environmentalists and other sections of the nuclear business.

Environmentalists say this enables the waste to be monitored, at least until more research is done on the safest way to dispose of nuclear waste. But Nirex, whose whole *raison d'être* is to build a repository, argues *that it is irresponsible to* leave the waste for future generations to deal with.

British Nuclear Fuels, the state-owned nuclear fuel reprocessor at Sellafield, recently itself offered to store waste above ground indefinitely.

BNFL, which "recycles" *spent fuel into plutonium,* uranium, and high-level waste, already stores high-level waste in vitrified form at the Sellafield plant.

The company has also *made great strides in the* nuclear clean-up market cited by Ms Western, winning *a share of two big con*tracts to clean up US military sites.

Mr Clark Bullard, a US official with responsibility for local nuclear issues, says *that the industry should* offer two types of inducements to local communities *to solve the waste problem.*

The first is letting potential host communities decide democratically whether they will accommodate a repository in a transparent process which treats them "like adults". The second is giving them the right to set the level of financial compensation they require for agreeing to host such waste.

Secrecy remains a big part of the problem, as illustrated by the UK's hunt for a repos*itory. A report* submitted last month to Mr John Gummer, the UK environment *secretary, into* whether Cumbria County Council was right to deny permission for the construction of the underground laboratory, is not expected to be made public before Mr Gummer makes *his decision.*

Friends of the Earth has also criticised Nirex for not making its own research into the RCF fully available to the public for free outside scrutiny, submitting it instead to a private group of experts.

*As a condition for his pro*posal that BNFL store waste above-ground at Sellafield, *Mr Neville Chamberlain,* BNFL's deputy-chairman, says the people of west Cumbria *should be entitled to* exact a big price for "being the solution to a problem the *rest of the nation seems to* have." But BNFL is also believed to feel irritation *with the way Nirex has han*dled relations with the local community.

The result is a striking contrast between the local Copeland borough council's *enthusiasm for* BNFL's reprocessing activities, and its suspicion of Nirex.

A new row can be expected early next year with the first planning application for *the mothballing of a civilian* power plant in Britain – a Magnox plant at Trawsfyn*ydd in Wales.* A process known as safestore – encasing plants in weatherproof structures after some waste has been taken away – is designed to allow the most radioactive contents to become less dangerous after decades of decay, while spinning out the costs of decommissioning.

The debris is then supposed to be removed and waste that is still dangerously radioactive buried in an underground dump. But Mr Hugh Richards, of the Welsh *Anti-Nuclear Alliance,* argues that the area is not only prone to seismic activity but that an alternative solution is required on ethical grounds.

"It will be as if the early Victorians had done something dreadful and left it for us to take apart," he says.

ADVERTISEMENT

Twenty five years ago today, no one took much notice when the United Arab Emirates was born in a desert. Today, it has developed into one of the wealthiest countries in the world

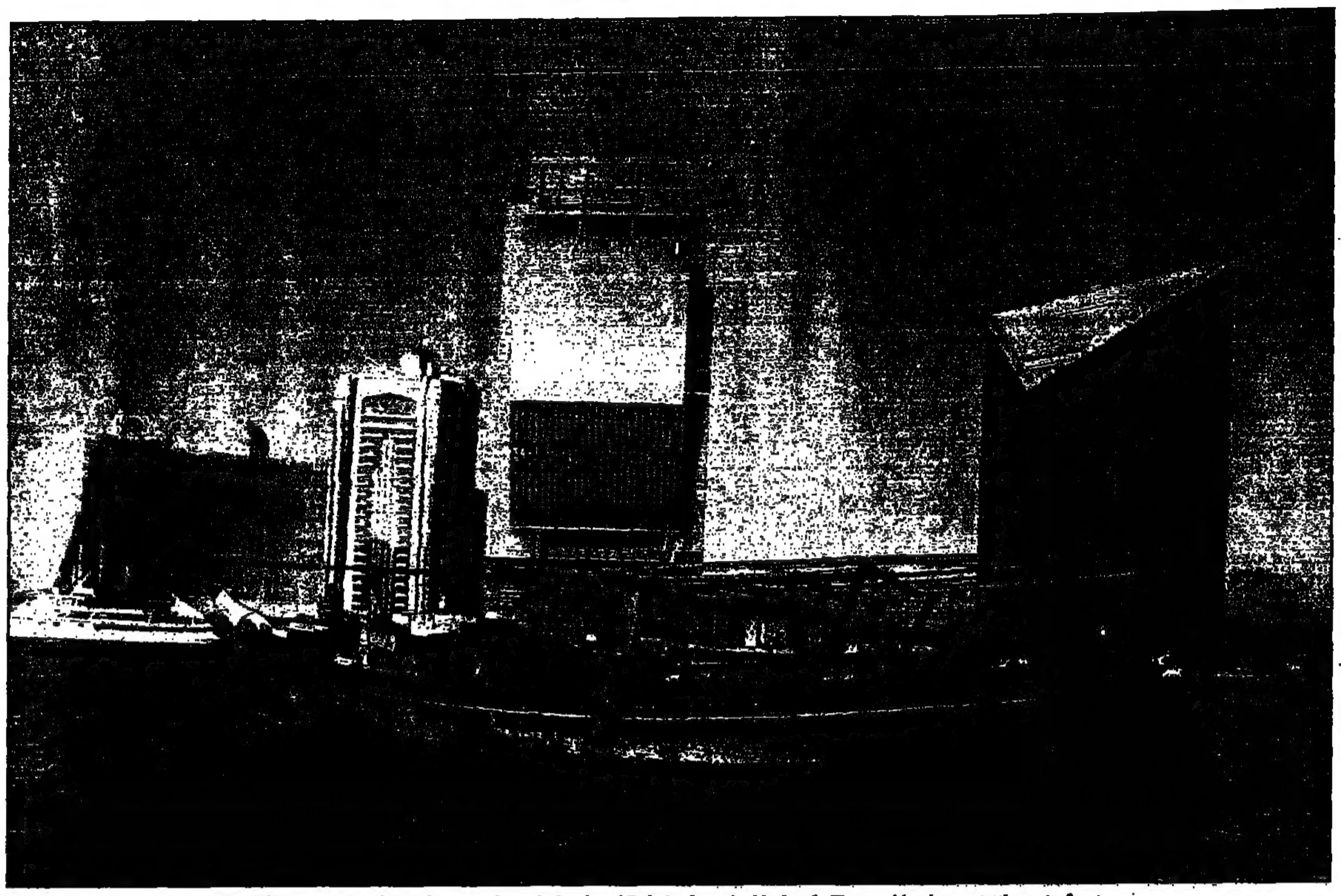
Growing a nation

The new country was born 25 years ago today, in a desert. It was a federation, in an age of nationalism. It had little water and most of its population was illiterate. Life expectancy was poor, in quality as well as length. The infrastructure did not reach much beyond a few clinics and four-wheel drive tracks. Every major indicator – health, education, output – placed it firmly among the underdeveloped.

It lay on the southern shores of the Gulf, known as the Trucial Coast after the series of maritime truces that the British had signed with local rulers in the last century. It was an obscure place, the more so after the market for Gulf pearls collapsed in the 1930s, and it was thrown back to make its living as best it could from fish, dates and goats until the first days of oil production in the mid-Sixties.

If it had its charms – long landscapes of blue mountain and red dunes, the shimmer of distant sea, sudden green tell-tales of rare moisture, the robes and cooling wind towers that hinted at a natural elegance in facing the harshness of the climate – the world at large knew nothing of them.

The change is startling; a people who might once have qualified for it themselves have quietly donated $5 billion in humanitarian and technical aid to others. Physically, at least, the United Arab Emirates is utterly transformed. The seven emirates which federated in 1971 – Abu Dhabi, Dubai, Sharjah, Ras al Khaimah, Umm al Qaiwain, Ajman and Fujairah – now have one of the world's highest standards of living. A population of 180,000 has soared to more than 2.3 million. The economy, fuelled by oil though now diversifying rapidly, has expanded more than twentyfold. Gross domestic product exceeded $39 billion last year.



A dhow laden with goods sails gracefully up the creek which passes through the city of Dubai, where the blocks of offices and banks run to the waterfront

It shows. The blocks of offices and banks in Abu Dhabi and Dubai run to the waterfront in lines like giant rollers. Inland, the original oasis settlement of Al Ain, distinctive for its mudbrick forts, is now a thriving university city of 280,000 in a country where further education once had to be pursued abroad, if at all. Scores of thousands of new houses have been built to cope with the increase in population, and to replace old homes of breeze blocks or woven palm leaves.

With them have come hospitals, schools and roads. It seems absurd – in a place where there is a car for every six people and a telephone for every three – to recall that communications once involved dhows, camels and bone-shaking trips by truck. Six international airports and 15 seaports have put paid to isolation from the outside world; from being one of the world's most difficult destinations, the UAE has become one of its easiest.

Oil, of course, has supplied much of the energy behind this expansion. Building a nation virtually from scratch, with no manufacturing base to speak of, would have been impossible without oil revenues to pay the heavy initial import bills. Although the UAE has the world's third largest proven reserves and the industry remains a prime mover, the non-oil sector now accounts for two thirds of gdp.

A recent study by the Central Bank suggests that gdp in Abu Dhabi alone may grow by 45 per cent by the end of the century, two thirds of it coming from sectors other than crude oil. A strategic position on world shipping and air routes, low taxes and good business services are attracting foreign companies. Dubai, for example, now has a busier container port than Seattle or Tokyo.

In terms of purely human potential, away from the six-lane highways and air-conditioned souks that are the predictable by-products of oil, the once damning social indicators have been reversed. Cradle to grave benefits are available for all Emiratis; the inevitable risk that this will create welfare dependency among youngsters who have not known poverty is offset by job schemes. Schooling covers small mountain and desert villages. Illiteracy among the young has disappeared, and has fallen below 15 per cent with the older generation as adult literacy classes take effect. The university at Al Ain – whose medical training is a source of particular pride in a country that had no hospitals 30 years ago – is backed by a chain of Higher Colleges of Technology These run courses from avionics and accountancy to chemical engineering, whilst vocational training centres will soon be honing practical skills in car repairs, carpentry and the like.

Women are not immured at home. They can opt for careers – the first to win her pilot's wings did so as the initial batch of home-grown doctors was graduating – and now make up a majority of university students. A quarter of the decision makers in government are women. A huge effort has gone into health and welfare services.

Life expectancy, at 73, a 13 year improvement on the figure at the time of federation, is above the average for the developed world; infant mortality, at around 2 per cent, is below it.

No blind eye is turned to the past; Knowledge of earlier civilisations, dating back for six millennia, is being mined in a major archaeological programme. Tableaux of the more recent life – and hard times – of pearl divers and desert nomads are laid out in the old fort at Dubai, a reminder that, however similar the skyline may be, it is not Dallas.

Political continuity has been supplied by Sheikh Zayed, the Ruler of Abu Dhabi since 1966, who has presided over the UAE since its inception. The Majlis, the open council where the individual could voice his opinions and complaints to his Sheikh, survives alongside federal institutions. Consensus and discussion, old traditions, have been vital in maintaining stability in a turbulent region. So has tolerance; the country acts as a magnet for immigrants from the region's poorer countries, and its large expatriate workforce is drawn from many countries and different faiths.

The landscape, and its flora and fauna, have not been ruined by wealth. Oil is used to produce sweet water from the sea in a complex of desalination plants. The cities have shaded public gardens and promenades of flowers and palms. Trees have been planted in the desert, creating stands of green; farms, supplying Europe with roses, strawberries and avocadoes, flourish in new oases created by dams, piping and the intricate use of waste and desalinated water.

An Emirates-wide ban has been placed on the hunting of gazelle, hare and lizards, enforced in Abu Dhabi by a unit of Desert Rangers. Sheikh Zayed has created a wildlife refuge on the offshore island of Sir Bani Yas, where Arabian oryx and gazelle breed undisturbed. Together with the museum-forts where the past is stored, it is a reminder of the country's long heritage. To be dazzled by the speed of its modernity is a mistake. Those who think only in terms of the oil well and the air-conditioner, as the great explorer Wilfred Thesiger said of Arabia, "will never know the spirit of the land, nor the greatness of the Arabs".

Now a centre for top world tournaments

The UAE has many modern facilities for sportsmen

On Wednesday, the Asian soccer championship kicks off in the 65,000 capacity stadium in Abu Dhabi's Zayed Sports City. The UAE will play South Korea in the first game. The national side was good enough to reach the final stages of the World Cup in Italy. Sport is well embedded in the national psyche; Abu Dhabi, for example, includes a stake in Manchester United among its overseas investments.

Some intriguing firsts have resulted; the first national XI from the Middle East to play in a cricket World Cup, the first world ten pin bowling and junior chess champions from the region – and the first racing camel to be born to a surrogate mother. In powerboats and horseracing – as the world's punters well know – the country reaches top levels. It has won the world offshore powerboat championships two years running. In another reminder of old sea-going skills, the arts of dhow-sailing are kept in racing trim at regattas.

The winter sunshine of Dubai is a tonic for racehorses. Dubai-trained horses have won the Derby, Oaks, Irish Derby and the Arc de Triomphe. The emirate's Nad al-Sheba track staged the World Cup last March. A global television audience of a billion watched the American horse Cigar winning $4 million in the racing world's richest race.

The handicapped are encouraged to use the superb sports facilities – the coliseum-like Sports City is large enough to be turned into a fully-fledged Olympic Village – to discover their potential. The initiative is paying off; the UAE team clocked up 26 medals at the Special World Olympics held in Atlanta over the summer

Top players – and hence, it is hoped, international interest and tourists – are attracted by the big purses on offer in tournaments. A $1 million tournament held at a new tennis centre in Dubai is an annual fixture for ATP players. Bunkers were never a problem in golf, but water has put real green into greens that were once oiled sand, and has added a new hazard – trees. Prize money in the Dubai Desert Classic has been raised to $1 million, enough to gather ten of the 12 Ryder Cup players from Europe and the US earlier this year, as well as some of Asia's best golfers.

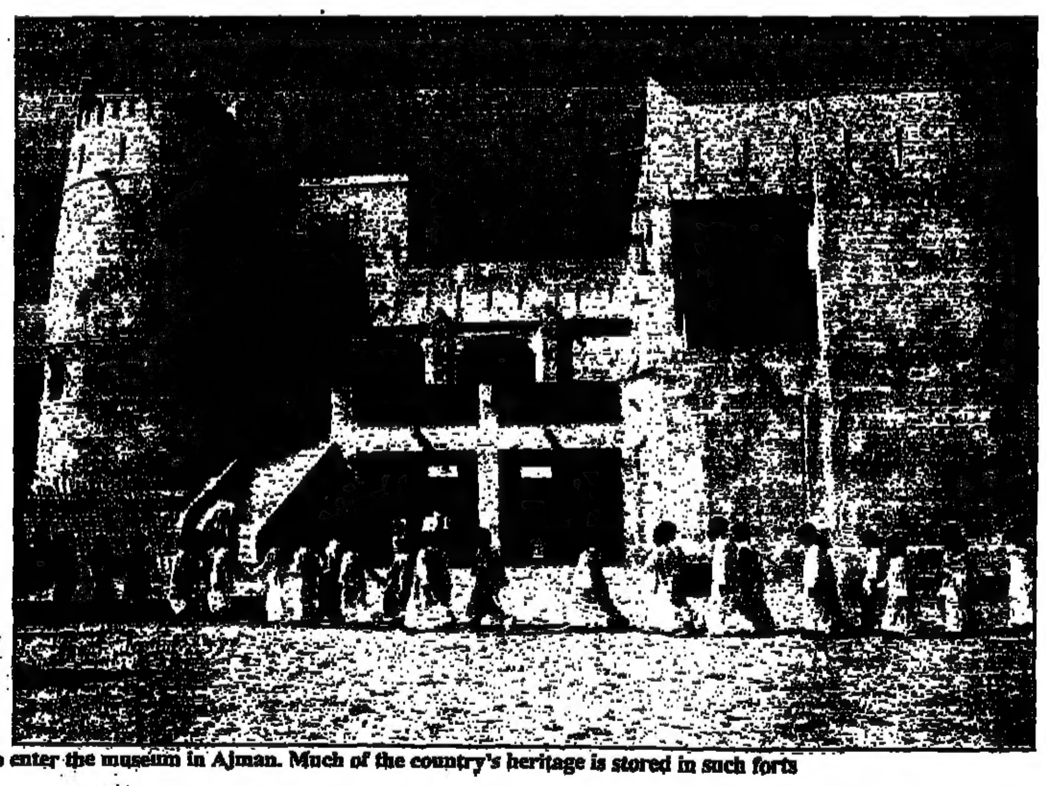
Camels might be startled by the appearance of golf courses in their habitat, but their wellbeing is otherwise undisturbed. The traditional sports of falconry and winter camel-racing – the animal was first domesticated in these parts – are in good heart.

Fields of 25 camels or so are normal, with groups classified by age. The breeding of racing camels is pursued with the same intensity that Sheikh Mohammed, Crown Prince of Dubai and federal defence minister, devotes to his classic-winning horses.

Pioneering methods are used to improve the stock and their training. Camels calve only every two years after a 13 month gestation, although they produce up to 30 embryos at a time. The Embryo Transfer Research Centre for Racing Camels was established at Al Ain, under the patronage of Sheikh Khalifa, Crown Prince of Abu Dhabi, to develop techniques for the transfer of embryos from top racers to other camels. The first embryo-transfer calves were born in 1990.

One female, Misikin, conceived twelve offspring in a season by this method, a feat that would normally have taken a quarter of a century. In a refinement of the technique, the first frozen embryo-transfer calf was born last year, after being stored at -196 deg C before completing its gestation in its new mother. A racing camel can fetch $1 million and more; the ship of the desert is a humble freighter no more.

Pleasure and business mix



Girls enjoy a traditional festival while a group of schoolboys queue up to enter the museum in Ajman. Much of the country's heritage is stored in such forts

Tourists are now joining the professionals in sampling the varied delights of this country

The Houbard bustard, tagged with its tiny transponder so that its habits can be charted for better protection, shares the skies with airliners bringing a new species to the country – the tourist.

Some, indeed, are bird-watching "twitchers" who have come to look for the rare bird; others have the coral reefs, the desert or simply the shopping in mind. But arrive they do, evidence the UAE has become a rarity itself – an oil state that people come to visit for pleasure as well as business.

Expatriates arriving to work in the Emirates first found – against all the apparent odds – that the country was worth visiting in its own right.

The summer months between July and September are indeed ferociously hot and humid, and best left to the brave.

But through the winter and spring, the skies are clear, the sea warm and the sun constant and friendly. The beaches are long and white, the desert and mountains have beauty – and the hotels are first class.

Word of this – Arabia Felix, the "happy Arabia" of which Alexander the Great and the Romans spoke – was passed to friends and relatives and a tourist industry began. It has prospered.

Well over two million tourists arrive each year; not a crowd in a country the size of Portugal but enough to stimulate services for them. A third of them are Europeans. What they do is very much a matter of individual choice – a day out at the camel races, perhaps, or a spot of sand skiing – but the essentials are all in place.

There are daily flights from Europe, connecting with services. A new service links Dubai and Melbourne, and there are thrice-weekly flights to New York and Houston. The airports are modern. The duty free shops at Dubai and Abu Dhabi have an enviable reputation for reasonable prices and a huge range of goods. A sauna, jacuzzi and health club help refresh jaded transit passengers at Abu Dhabi. Transport is easy on excellent roads, though those who want a loftier view on the trip between Abu Dhabi and Dubai can take a seaplane.

It is a notably well-hotelled country. They range from five-star and deluxe big names – Inter-Continental, Sheraton, Hilton, Forte Grand – through four-star to modest and comfortable rest houses. Many are on the beaches with watersports a lift ride from the rooms, and more are coming on stream.

The Chicago Beach resort, being built partly on a man-made island with a bridge to the mainland, will include tennis courts, a miniature golf course, and a large conference centre as well as a private heliport for the well-heeled guest. Telephone services are state of the art; there are multiple satellite TV channels for those who feel they have to keep up with the news. All hotels should be able to arrange overnight safaris, sandskiing on the high dunes of Liwa and sorties by dhow are offered. Four wheel drive vehicles with experienced guides can be hired to explore the remote desert and mountains.

Restaurants offer, it seems, food from virtually every region on earth – sushi, French haute cuisine, New York steaks, Arabian lamb, Lebanese hors d'oeuvres. British bangers and mash are served in Irish pubs. For all this, locally caught fish and lobster make up some of the most delicious dishes.

There are plenty of ways of working off a good meal. The water-minded can stroll the old port at Ras al Khaimah, or sail, waterski and scuba dive. Further offshore, sailfish and marlin provide excellent game fishing. The gentler art of bird-watching thrives; so too does the round of golf, and the spectator sport of watching its stars in tournament play.

Those who wish to shop until they drop will find very few better places to do it. The souqs are stacked with gold and silver jewellery, silks, Iranian carpets, cameras, carved wood and brass and scented with aromatic spices.

The two coasts – the Gulf, and the Indian Ocean – are distinctive. In Fujairah, the mountains fall steeply into the ocean. The emirate plans to instal cable-cars so that the waterfall country of the rugged Al-Wurrayah region can be seen. Umm al-Qaiwain has plans for a huge aqua park, and the first phase of the Dreamland project is under construction.

It can seem so modern, and it is so easy to focus on the suntan lotion and the disco, that the visitor may not ride in the desert, or hold a falcon, or glimpse a distant camel herd or hennaed hands. It would be forgetful. This is not, after all, the Costa Something. It is Arabia.

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Russian utilities giant set to issue eurobonds

By Chrystia Freeland in Moscow

Unified Energy Systems (UES), Russia's utilities giant, plans to launch a eurobond issue next year. It joins the bandwagon of Russian companies and regional authorities that have announced such plans following the Russian Federation's debut issue last month.

Mr Alexander Lopatin, head of investor relations at UES, said the company would reveal in early January the size of the issue and the names of western financial advisers chosen to guide it into the global markets.

His announcement follows a surprise government move last week to cancel a UES convertible bond issue. The bonds were to have been backed by 7.5 per cent of the company's shares, currently owned by the government, and officials had hoped the issue would raise $350m.

The government has opted instead to sell an 8.5 per cent stake in the company in a cash auction. Bids must be placed by December 23 with a minimum price of Rbs500, 10 per cent above the current share price. The sale is expected to raise nearly $300m for Russia's cash-strapped treasury.

UES management has made no secret of its opposition to the cash auction, arguing that by selling the shares hastily and on the domestic market the government will get a far lower price than it could have achieved through better planning and an international sales pitch.

"The decision was wrong, although it was the government's right to take it," Mr Lopatin said. "We said to them, 'if you do not like the convertible eurobond issue, why not carefully prepare the market and then sell the shares, maybe in the second half of 1997?'"

UES management is believed to suspect that the cancellation of the convertible bond issue could be part of a government effort to ensure the 8.5 per cent stake is acquired by members of a group of seven bankers and businessmen who have emerged as a dominant force in Russian politics.

Observers believe the stake is likely to go to Oneximbank or Menatep, the chief beneficiaries of a controversial shares-for-loans privatisation scheme last year. Some analysts attribute UES's objections to the share sell-off to the company's reluctance to pass into the hands of private shareholders.

The Russian government owns 60 per cent of the company and is legally required to retain at least a 51 per cent share until 1996. Another 22 per cent is owned by foreign investors and 18 per cent by Russians, including 5 per cent by workers and management.

Traders must declare buying plans ■ Exchange short of metal to meet contracts

LME faces copper options turmoil

By Kenneth Gooding and Deborah Hargreaves in London

Copper traders are braced for turmoil on the London Metal Exchange this week as dealers must decide whether they want to exercise copper options purchased several months ago.

The problem is that the LME does not have nearly enough copper in its warehouses to cover all the outstanding options contracts. Traders must declare on Wednesday if they want to buy copper under options already taken out, which could bring a flood of demand for metal that may not be available.

Some traders warn that the copper market could become "extremely ugly" as options activity builds up.

Copper prices remain high in spite of a small drop on Friday when LME figures showed the first rise in copper inventories since early September. The market was extremely volatile last week with the price hitting its highest point since the Sumitomo Bank copper-trading scandal five months ago.

LME stocks are at their lowest point for more than six years. The tightness of supply is also shown in the premium that traders must pay for immediate delivery over the price for deliveries in three months. That premium soared on Thursday to $280 a tonne.

The cash price slipped on Friday to $2,470.50 a tonne, but remains close to the $2,600 strike price "at which a huge volume of call options are still believed to be unhedged", said Mr Alan Williamson, analyst at Deutsche Morgan Grenfell.

Traders pointed out that the amount of business outstanding on LME options at $2,600 a tonne was equivalent to 168,750 tonnes, which is nearly twice the level of the exchange's stocks – which on Friday stood at 92,475 tonnes.

One trader said: "The big shorts [speculators who have bet on a fall in the copper price] are much weaker now. This time they appear to have been clobbered." Traders who have gone "short" could be forced to use their options to buy metal in order to cap their losses.

However, not everyone in the market is convinced things will turn ugly.

"I find it hard to believe that these people would just sit there with large options positions and not do anything about it. It would be very bad risk-management," one dealer pointed out. "But I expect copper to remain volatile over the next few days ahead of option declaration."

● Goldman Sachs yesterday denied reports that it had sacked a copper trader over losses in the market. The broker said it had made no recent losses in the copper market.

An aluminium trader has, however, left Goldman Sachs by mutual consent.

Global Investor, Page 24

Russian market's fortunes revealed in ADRs

Russia's equity market offers seemingly fantastic long-term potential, but in a country where information is scarce and events unpredictable, stockpicking is a special challenge.

Take the recent case of Komineft, one of Russia's privatised oil producers: its share price rose fivefold to almost $25 in 1994.

But then an oil pipeline leak – and the revelation that a new share issue had been distributed secretly to selected investors – sent its shares plummeting. They currently trade at below $2.

One unusually reliable indicator in recent months has been the behaviour of Russian companies that have issued American Depositary Receipts (ADRs). All eight of them have seen their share prices rocket.

ADRs, which are created by bundling up domestically traded shares into internationally tradeable packages, count technically as US securities.

This allows them to be bought by a far broader range of mainstream funds than just high-risk investors in emerging markets.

Brunswick Brokerage, a Moscow-based securities house, suggests investors would have made handsome returns this year by buying domestic shares of companies that announced they were going to issue ADRs, then surfing the resulting liquidity wave when the international proxy shares started trading.

Since their ADRs were issued, the shares of Tatneft, a regional oil producer, have risen three and a half times. Those of Seversky Pipe Works rose more than three times, and those of Lukoil, Russia's biggest oil producer, have more than doubled. Total value of Russian ADRs is now more than $2.5bn.

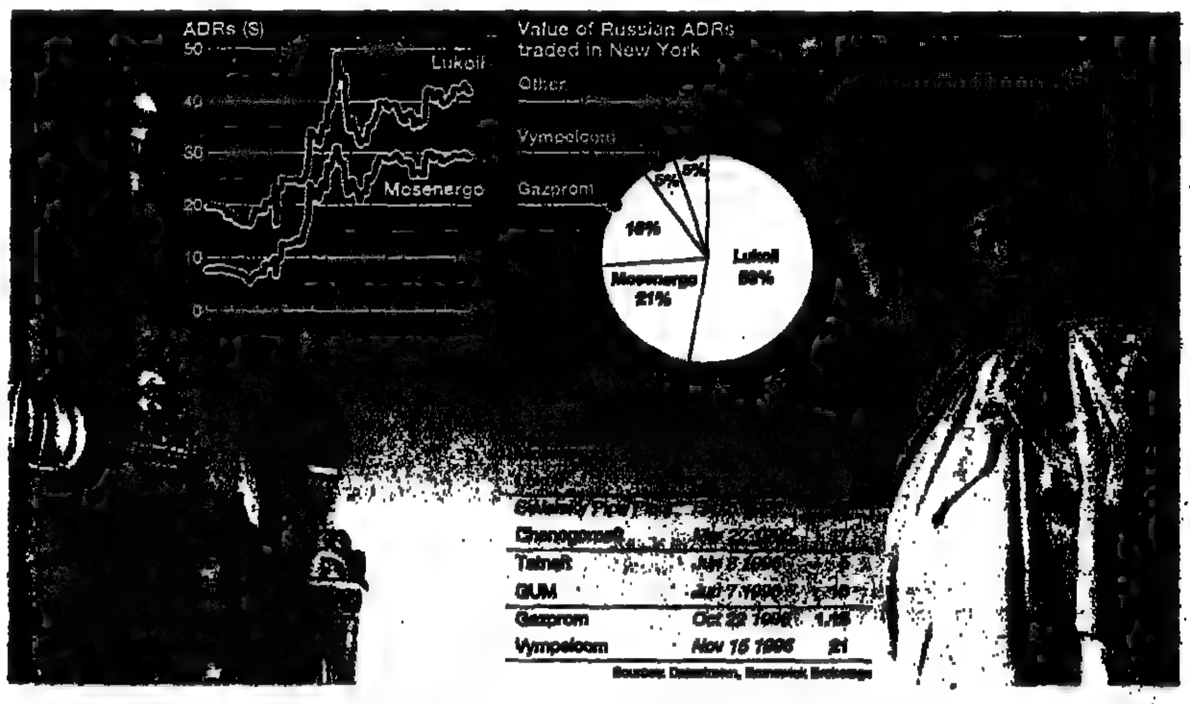
The cause of these price movements is, of course, more complex in practice than in theory. Almost all Russian shares surged when it became clear that President Boris Yeltsin would be re-elected.

Companies that issue ADRs are also more likely to be run by progressive managers who are actively restructuring their companies.

Moreover, any investment decision based solely on liquidity arguments is likely to prove highly suspect. Underlying fundamentals are still important.

"If you just looked at those companies that issued ADRs, you would have missed the best returns in the market this year," says Mr Alex Knaster, head of the Moscow office of CS First Boston, the international investment bank.

"The biggest run-up has been in the shares of second-tier telecoms and energy companies and preferred stocks," he says, although he concedes that such illiquid shares will be far more difficult to sell if the market turns nasty.



So far, Russia's privatised companies have only issued level-one ADRs approved by the US Securities and Exchange Commission, which demands that all information disclosed to the Russian market should be made available to international investors.

However, several companies are planning to issue more sophisticated level-three ADRs next year, which will require much fuller disclosure and doubtless lead to more discriminating investment decisions.

The SEC demands that companies produce three years of US GAAP-standard accounts before issuing level-three ADRs, although this would enable them to obtain a full New York Stock Exchange listing and raise fresh capital abroad through a public offering.

Lukoil is believed to be planning to raise more than $1bn abroad next summer by selling 15 per cent of its shares on the back of a level-three ADR listing.

"The interest among companies in Russia to issue ADRs has been phenomenal," says Mr Christopher Kearns, an assistant vice-president at the Bank of New York, which acts as the depositary bank for all the Russian ADRs issued so far.

"The appetite from companies to bring their accounts to a level where they can truly access international markets is very encouraging."

As the Russian stock market develops and domestic demand deepens, it will in theory become increasingly hard for foreign investors to ride the ADR liquidity wave.

"The novelty factor of ADRs will fade away. We will see less of a dramatic price impact when companies issue them in future, and it becomes easier to invest directly in the underlying stock in Russia," says Mr Par Mellstrom, head of research at Brunswick.

Yet these first Russian ADRs could still experience one final liquidity surge if, as seems likely to be the case, the Russian equity market is included in the International Finance Corporation's investable securities index next year.

Emerging market fund managers wishing to track the benchmark IFC index would be obliged to invest a proportion of their funds in Russia, though they could be left scrabbling for suitable stock.

Only ADRs offer a safe and liquid enough means through which they could invest in scale.

John Thornhill

INSIDE

Olympics

Underwriters of the A$365m (US$297.3m) offering of securities in Sydney's planned Olympic stadium will decide this week how to proceed in the wake of a disappointing response. Page 23

Citibank

Citibank of the US opened a personal computer-based banking centre in Taiwan to serve as a regional hub, in a move to capitalise on fast-growing computer usage in Asia's developing economies. A PC banking system is under development and will be offered in stages to customers in 19 countries in Asia, the Middle East and eastern and central Europe. Page 23

Littlewoods

A bid battle between Littlewoods of the UK and Otto Versand of Germany is emerging for Freemans, the UK mail order business owned by Sears, with offers pitched at about £350m ($584.5m). Although the business is not yet officially for sale, Sears is understood to be considering ways of returning a substantial proportion of any proceeds to investors. Page 22

Fund Management

A spate of deals this year is evidence, outsourcing specialists say, of how fund management groups are at last beginning to practise what they preach to companies in which they invest, by contracting out non-core activities. Page 22

Global Investor

The rapid run-up in copper prices in the past few weeks is proof, as is the Sumitomo scandal, that the copper market is a world of its own. None the less, the turmoil in the copper market does illustrate a number of trends relevant to investors in all markets. Page 24

German print group plans offering

By Peter Marsh in London

Heidelberger Druckmaschinen of Germany, the world's biggest supplier of printing presses, plans a public offering of up to 15 per cent of its equity next year.

The decision follows the German cartel office's approval last week of its DM180m ($117.6m) takeover of Linotype-Hell, a big German maker of pre-press equipment.

Heidelberger's shares are not publicly traded. Its biggest shareholder, RWE, the German electricity utility, holds 26 per cent. Other big shareholders are the Allianz insurance group and Commerzbank. Heidelberger's annual sales, including Linotype, are more than DM5bn.

The group wants some of its existing shareholders to give up a portion of their stakes to provide shares for a public offering.

It is also finalising a strategy to move into computer technology and broaden its product range.

As well as stepping up efforts to offer complete "turnkey" systems for printers, including pre-press equipment and folding and binding machines, the company is working on new newspaper printing systems.

These would enable newspapers to be "customised" to the needs of individual readers, using high-speed communications links and digitised presses.

"We want to solve the printing problems of the world," said Mr Hartmut Mehdorn, chairman and chief executive. His company had talked to several newspaper groups about its "customised newspaper" ideas.

Mr Mehdorn, formerly director of aircraft activities at Daimler-Benz Aerospace, Germany's main aerospace company, joined Heidelberger a year ago.

He said that having some of Heidelberger's shares traded publicly would put it in a better position to raise capital for business changes, including acquisitions.

Discussions on a public offering are likely over the next few months. Initial estimates suggest a 15 per cent stake might be worth DM500m to DM700m.

In the year to March 31, Heidelberger made net profits of DM269m, 25 per cent up on the previous year on sales of DM4.3bn, up from DM3.7bn.

UK bank may diversify into stationery supplies

By Christopher Brown-Humes in London

National Westminster, one of Britain's biggest banks, is considering selling office supplies, in what would be its first diversification outside financial services.

The bank would aim to use its buying muscle to supply more than 3,000 stationery items to its own business customers and other companies.

The project comes at a time when the UK's banks are facing unprecedented competition in their core areas from other financial services groups – including building societies and insurers – and supermarkets.

But the plan has run into opposition from the stationery trade and individual suppliers who are also NatWest customers. They say they will close their accounts if the plan goes ahead. NatWest said the scheme had been under consideration since the summer, and a decision was expected soon.

"Companies are looking at all sorts of business activities outside their traditional areas and we are no different from anyone else," it said yesterday.

"We are a bulk purchaser of stationery for our own use and that may give us a rationale for supplying external customers. We have to decide if this is a market we could or should join."

It would be the first big project for Business Plus, a group which the bank has set up to explore business opportunities outside traditional areas. Customers would be able to order more than 3,000 catalogue items by telephone or fax, with next-day delivery.

"We would supply everything that we use ourselves from paper to paper clips and staples to staple removers," the bank said.

The scheme would be targeted at companies using large quantities of stationery rather than retail customers, and it would not be possible to pick up items from NatWest branches.

The bank said it had received protests from the British Office Systems and Stationery Federation, and from individual suppliers who were unhappy at the prospect of competition from their own bank.

"We are taking the protests into account in our discussions," the bank said.

In the last few months, the UK's three biggest supermarkets – J. Sainsbury, Tesco and Safeway – have taken significant steps into financial services.

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Bid battle emerges for Freemans

By Peggy Hollinger

A bid battle between Littlewoods of the UK and Otto Versand of Germany is emerging for Freemans, the mail order business owned by Sears, with offers pitched at about £350m.

Although the business is not yet officially for sale, Sears is understood to be considering ways of returning a substantial amount of any proceeds to investors, including a special dividend.

A payout could come rapidly after any disposal, with plans to return the £80m proceeds of a recent property sale in Glasgow already at an advanced stage.

Both Littlewoods and Otto Versand, which owns Grattan, the UK's fourth largest mail order business, have indicated interest in making a bid. Littlewoods, the UK's second ranking mail order company after Great Universal Stores, is believed to have drawn the line at £350m. Sears is now understood to be taking soundings from Otto Versand.

Mr Liam Strong, Sears chief executive, has had a number of approaches for Freemans since his group indicated that it wanted either to expand the business or, if that was not possible, to sell it.

Other potential bidders include N Brown, which claims 4.2 per cent of the mail order market and Pinault Printemps of France which has 4.7 per cent of the UK market through its Empire stores operation. Both have indicated interest, and N Brown said yesterday that if there was a formal auction, it "was interested in taking part".

Mr Strong is expected to make his decision on Freemans' future within the next few weeks.

Sears paid £477m for Freemans in 1988. However, since then, the traditional agency mail order market – whereby agents receive a commission for placing orders – has fallen into decline.

A report out today from Corporate Intelligence on Retailing reveals that mail orders fell by 3.4 per cent to £5.3bn in 1995, compared with a 3.9 per cent rise in all retail sales.

CIR warns that the future growth of the big five retailers – GUS, Littlewoods, Freemans, Grattan, and Empire – now "hangs in the balance". It will depend on their ability to introduce the concept of home shopping to a new, more affluent audience, the report warns. Between 1990 and 1995, the "Big Five's" sales increased by an average 3.8 per cent per annum, compared with 4.4 per cent for all retailers.

Back office comes into the foreground

William Lewis on the growth of outsourcing

Several years after contracting out of non-core activities became accepted as normal business practice at most leading companies, fund management groups now seem to be catching on.

A spate of deals this year is evidence, outsourcing specialists say, of how fund managers are beginning to practise what they preach to companies in which they invest. They are contracting out parts of the back office and other administrative work to leave them free to focus on making investment decisions and managing their portfolios.

In the last two weeks WM, the Edinburgh-based investment management information and administration specialist, has announced that it has been appointed by three fund management operations, including Schroder Unit Trusts, to manage parts of the administration of their investment portfolios.

This followed the announcement in February by Scottish Widows, the life assurance company, that it had agreed to contract out the administration of its £32bn portfolio to WM.

"Outsourcing is taking off, there is a real trend establishing in the UK," says Mr Stewart Crawford, managing director of WM. He argues that fund managers' outsourcing of their back office activity will soon be as common as the contracting out of global custody, a trend established for several years.

Earlier this year Prudential Portfolio Managers announced it was outsourcing custody of its £45bn portfolio to Midland Bank and Mellon Trust. As part of the deal, Premier Administration, a subsidiary of Mellon Trust, is now responsible for the pricing of PPM's £2.1bn of unit trusts. Eventually it will also be responsible for the pricing of PPM's £2bn-worth of unit linked life and pension products.

Mr Roger Fishwick, PPM's group treasurer, said the decision to contract out was based on "the same principle as global custody, it is a bit non-core to what we do". He said PPM had considered updating its own in-house pricing systems but had concluded "it was not worth it as there are providers who specialise in doing it".

The economics of contracting out and accurate industry-wide statistics are difficult to establish because of the reluctance of most companies to disclose details of deals.

WM forecasts turnover of around £26m next year, of which about £8m will come from its outsourcing activities. Schroders, the investment bank which last week appointed WM to administer its 35 retail and institutional unit trusts, said "it is in our interest that they [WM] make a profit, but not too much of a profit".

FUND MANAGEMENT

Margins in the administration business are generally reckoned to be low, but Henderson, the fund management group which has its own specialist administration arm, stated in its most recent annual report for the year to March 1996 that management fees as a percentage of average funds under administration were 0.21 per cent. This compares with management fees as percentage of average UK institutional funds under management of 0.28 per cent, and 0.64 per cent for retail investment business.

Mr Dugald Eadie, managing director of Henderson, says investment managers are becoming increasingly keen to outsource a range of administrative functions. On top of custody and the pricing of their unit-linked products, Mr Eadie says fund managers are examining contracting out their investment accounting, portfolio record keeping, and several other investment services.

Several factors appear to be influencing fund managers: the most important being cost saving. Fund managers have to decide between spending several millions of pounds on their own computer systems or contracting out to an administration specialist who is able to divide the cost among several clients.

Another factor is the entry of new companies to the fund management industry.

However, compared with the fund management industry in the US, the UK is greatly underdeveloped.

PPM, for example, happy to outsource part of its administration to Premier, was unwilling to contract out its entire back office function. "We are prepared to wait and see," Mr Fishwick said.

Fund managers are concerned that outsourcing their administrative functions could cause them regulatory difficulties. Imro, the fund management industry regulator, says it has no general concerns about fund managers outsourcing as long as "they are delegating duties but not responsibility".

Nevertheless, new Imro rules governing the regulation of back office staff which are due to come into effect next year could make companies more likely to want to outsource.

Imro wants back office managers to have to sit exams "to improve standards across all firms, remove errors and increase understanding".

The regulator says most fund management firms have told it that the new rules are unlikely to be costly to implement, but concedes that the increased regulatory burden may lead some fund managers to contract out their back offices to specialist companies. "You may get centres of excellence developing because of it," Imro said last week.

Halifax to take sting from share handout

By Christopher Brown-Humes

Halifax Building Society, whose £10bn flotation next year will be the UK's largest single extension of share ownership, is taking steps to prevent a chaotic first day's trading.

It wants to encourage the 8m savers and borrowers who will get free shares to place them in a nominee company, rather than opt for individual share certificates.

This would, for instance, help avoid share certificates being lost in the post.

Halifax believes more than 750,000 people could sell their windfall shares on the first day – expected to be in June next year. It is keen to prevent a collapse of the Crest electronic share settlement system.

Crest aims to be fully operational by next spring, but has been hit by delays in the last month.

A nominee system allows trades to be aggregated, avoiding the need for thousands of individual transactions.

Halifax plans to ask its members in advance if they want to sell their shares straight away. It will offer members free share dealing and a facility for proceeds to be paid into their accounts.

Pifco pursues rival Kenwood

By David Blackwell

Pifco, the UK household appliances group, is seeking to acquire its much larger rival, Kenwood Appliances, which is under siege from rebel shareholders.

Combined, they would have sales approaching £250m, giving the UK a company with more clout to compete in the European appliances market against Philips, Moulinex, Braun and SEB, which owns Tefal and Rowenta.

Kenwood confirmed yesterday that Pifco had made an informal approach to a non-executive director through Goldman Sachs, the US investment bank. But the group stressed that no formal bid had been made.

Pifco, which is not interested in a contested bid, had sales last year of just over £40m – about a fifth those of Kenwood – but its shares are riding high after an announcement in August that it had beaten its larger rivals to the market with the first electric kettles made with a flat heating element.

On Friday, the shares closed at 283p, giving Pifco a market capitalisation of £48m, about half the size of Kenwood.

Shares in Kenwood closed at 220½p, having fallen from a high of 380p at the beginning of 1994 to below 200p in July on a profits warning following what was described as "a savage decline" in European sales.

UK Active Value, a fund headed by Mr Julian Treger and Mr Brian Myerson, have since built a stake of 9 per cent. The pair have requisitioned an extraordinary general meeting, set for December 16, in order to put Kenwood up for sale.

Mr Treger said yesterday that Kenwood had excellent potential but it was time for change: "We believe that it has poor management which lacks marketing flair."

Mr Michael Webber, Pifco chairman and a member of the family that founded the group 96 years ago, said yesterday there was a "sound commercial and industrial logic for putting the two companies together". He said administration costs could be cut, and the patented flat-element technology could be applied to some Kenwood products.

Kenwood, famous for its Chef food mixer, would also benefit from gaining Pifco's personal care brand, Carmen, he suggested, while other Pifco brands such as Russell Hobbs, which makes the flat-element kettle, would benefit from better international distribution via Kenwood subsidiaries.

However, Mr Tim Beech, managing director of Kenwood, said he did not believe Pifco's "back-of-a-fag-packet" approach would be good for either company. Any offer would have to be in cash, he said, adding that he would have no trouble persuading shareholders not to accept a paper offer.

Kenwood's interim results are due out tomorrow. Analysts expect a significant profits fall from the £7.4m of last year's first half.

Cunard in drive to cut costs

By Tim Burt

Cunard, the lossmaking cruise line, is planning a heavy cost-cutting exercise in a bid to return the company to profit ahead of a possible sale or merger.

Senior executives have been asked to prepare detailed savings proposals – covering areas such as ticketing, management services, reservations and staffing – as part of an exercise to wipe out estimated losses of more than £10m this year.

The move follows the arrival of Mr Antti Pankakoski, the Finnish shipping executive, who last month succeeded Mr Peter Ward as chairman.

Mr Pankakoski has been asked by Kvaerner, Cunard's Scandinavian parent company, to accelerate the five-year turnaround strategy drawn up by Mr Ward, which envisaged a return to profit in 1998.

"We need to change the management culture," said Mr Pankakoski. "This company is not making money and I am seeking improved operational efficiencies."

As part of the cost-cutting exercise, Kvaerner is understood to have told the new Cunard chairman that it would not fund any further refit work beyond the current £12m overhaul of the QE2, the company's flagship.

Mr Pankakoski, the former vice-president of Kvaerner's shipbuilding division, is also reassessing Cunard's plans to merge its two New York administrative centres at a new international headquarters located outside the city.

The review follows warnings from Kvaerner that it was unlikely to repeat this year's £26m of capital investment in the cruise operator.

Despite the reduced investment, the new chairman believes the business can be returned to profit sooner than had been expected.

Kvaerner, which has made no secret of its desire to sell Cunard, believes it will find a ready buyer or joint-venture partner once it has returned it to profit.

Last year Cunard made an operating loss of £16.4m.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

TODAY

Abbey National Treasury Svs 10¾% Sb Bd 2006/11 £1075.0
Adscene 7¾% Cv Cm Pf 3.9p
American Brands $0.50
Asarco $0.20
Austin Reed 2.25p
BAT 12¼% Un Ln 2003/08 £6.125
Barclays Bank Non Cm $ Pf Ser C1 $0.4219
Do Ser C2 $0.1406
Do Ser D1 $0.4313
Do Ser D2 $0.1437
Do Units $0.5625
Do Ser D Pf Units $0.575
Berry Birch & Noble 1p
Bostrom 2.9p
Cadbury Schweppes 5.875% Nts 1998 $58.75
Camas 1.25p
Canning (W) 3.4p
Chesterton Intl 2p
Cookson Group 3.9p
Croda Intl 3.45p
Dalgety 13.5p
DCS 1p
Delta 4.5p
DePfa Finance 7¼% Gtd Bd 2006 C$72.50
Eksportfinans 7¼% Nts 1998 £72.50
Enserch $0.05
Enterprise Oil 10¾% Un Ln 2013 £5.375
Fleming Claverhouse Inv Tst 1.45p
Folkes Group 0.684p
Do N/Vtg 0.684p
Ford Motor $0.385
Galliford 0.5p
Garton Eng 1.6p
Glaxo Wellcome 8¾% Bd 2005 £87.50
Guinness 7⅜% Nts 1997 £73.75
Hat Pin 1p
House of Fraser 1.7p
Inco $0.10
Ladbroke 2.4p
Manchester United 3.6p
Manganese Bronze 4.5p
Microvitec 0.425p
Minerals Oils and Resources $0.25
Murray VCT 1.91p
Northern Leisure 2.25p
Norway 7% Nts 1996 $350.0
Oriel 2p
Paterson Zochonis 13.35p
Do A N/Vtg 13.35p
Penna 1p
Perry 3.25p
Pochins 1.75p
Premier Farnell 5.2p
Record Hldgs 1.15p
RMC 7.8p
Royal & Sun Alliance 6.5p
Scottish Mortgage & Tst 1.65p
Sears 1.05p
Silk Inds 2p
Sony Y25.0
State Bank of New South Wales A$65.0
Tesco 3.25p
USLIFE $0.247
Union Carbide $0.1875
United News & Media 8p
Yorklyde 2.65p

TOMORROW

Asahi Chem 7⅛% Bd 1999 Y712500.0
Bilton 2.89p
Boxmore 0.91p
Brandon Hire 0.9p
BUPA Fin 10½% Sb Gtd Bd 2018 £1050.0
Carisbrooke Shipping 1p
Comunidad Autonoma del Pais Vasco 8% Bd 2002 DM400.0
Dairy Farm Intl $0.0165
Do (Jersey) $0.0165
Do (Singapore) $0.0165
Fuji Bank Intl Finance Und Sb Gtd VRN $1658.85
Guinness 7¾% Nts 1998 £775.0
Halifax Bldg Scty 7¾% Nts 1998 £775.0
Hongkong Land (Bermuda) $0.035
Do (Jersey) $0.035
Do (Singapore) $0.035
Jardine Matheson (Bermuda) $0.078
Do (Jersey) $0.078
Do (Singapore) $0.078
Jardine Strategic (Bermuda $0.046
Do (Jersey) $0.046
Do (Singapore) $0.046
Mandarin Oriental Intl (Bermuda Reg) $0.0165
Do (Jersey) $0.0165
Do (Singapore) $0.0165
Newmarket Venture Cap 4.5p
Select Apptmnts 1p

WEDNESDAY DECEMBER 4

Abbey National Treasury Gtd Tec 10 Indxd FRN 2008 FFr133.50
Briston Estate 3.15p
Dorling Kindersley 3p
Export-Import Bank of Japan 8% Gtd Bd 2000 $75.0
St Ives 7.1p
Sumitomo Bank Cap Mkts Gtd Fxd/FRN 2002 $91250.0

THURSDAY DECEMBER 5

CNC Properties 0.13p
Ex-Lands Properties 0.5p
Ferguson Intl 4.5p
Gilette $0.18
Hankyu Corpn 7⅛% Bd 2000 Y7125000.0
Higgs & Hill 1p
Mercury Offshore Sterling Tst Global Fd 0.03p
Do Pacific 0.74p
Do Reserve 1.9p
Do UK 3.73p
Tarmac 3p

FRIDAY DECEMBER 6

Aberforth Split Level Tst Inc 2.25p
Do Units 2.25p
Alexandra Workwear 2.5p
Anglo American Gold Inv R7.30
Anglo American Inv Tst R1.29
Antofagasta 2p
Bardon 0.8p
Baronsmead VCT 1.81p
Boeing $0.28
Five Oaks Invs 0.45p
Gearhouse 3.7p
Green (Ernest) 1p
Halifax Bldg Scty FRN 1999 £144.52
Halstead (James) 6p
Headway 0.6p
Hoare Govett Smaller Co's Index Inv Tst 1.25p
Jupiter Extra Inc Tst 1.96875p
Meggitt 1.35p
Morgan Stanley Equity Pf Equity Ser A 9.023438p
My Kinda Town 2p
New Central Witwatersrand R1.22
Tarmac 3p
Venturi Inv Tst 1.92p

SATURDAY DECEMBER 7

Treasury 7½% 2006 £3.75
Treasury 8% 2000 £4.00
Treasury 8% 2015 £4.00
Treasury 8% 2021 £4.00
Treasury 8½% 2005 £4.25

UK COMPANIES

TODAY

COMPANY MEETINGS:
Eleco Hldgs, Belcon House, Essex Road, Hoddesdon, Herts, 10.00
Gardner (L), Manchester Airport Hilton Hotel, 2.30
Kleinwort Development Fund, 10, Fenchurch Street, E.C, 12.45
BOARD MEETINGS:
Finals:
Stakis
Toy Options
Young (H)
Interims:
ACAL
Allen
Ascot Hldgs
BTG
BTP
Columbus Group
Eurodollar
OMI Intl
Oriflame Intl
Scottish & Newcastle
Tinsley (Eliza)
Tops Estates

TOMORROW

COMPANY MEETINGS:
Dorling Kindersley, 9, Henrietta Street, Covent Garden, W.C., 10.30
Merivale Moore, Kensington Moathouse Hotel, 2-10, Harrington Road, S.W., 12.00
SWP, Memery Crystal, 31, Southampton Row, W.C., 10.00
Stratagem, Exchange House, Primrose Street, E.C., 9.30
BOARD MEETINGS:
Finals:
Barcom
IOC Intl
Morris Ashby
Scottish Radio
Interims:
Bath Press
Belhaven Brewery
Border Television
East Surrey Hldgs
Firth Hldgs
Fulcrum Inv Tst
Hazlewood Foods
Locker (Thomas)
Marston Thompson & Evershed
Photobition Group
Siebe
St James Beach Hotels
Wellman
Wessex Water

WEDNESDAY DECEMBER 4

COMPANY MEETINGS:
Scottish Metropolitan Property, Glasgow Hilton, 1, William Street, Glasgow, 11.30
Wescol Group, Westercroft Lane, Northowram, Halifax, W. Yorkshire, 12.00
BOARD MEETINGS:
Finals:
Bass
Blick
Carlton Communications
Interims:
Hadleigh
Northern Investors Co
Orbis
Scottish Power
Sterling Industries
TGI
Thorn Lighting Group
Victoria Carpet Hldgs

THURSDAY DECEMBER 5

COMPANY MEETINGS:
Alliance Resources, Royal Automobile Club, 89, Pall Mall, S.W., 10.00
Ex-Lands Properties, 19, Cavendish Square, W., 10.30
BOARD MEETINGS:
Finals:
Alvis
Denby Group
Dewhurst
Grand Metropolitan
Hanson
Lovell (YJ)
MEPC
Ransomes
Sheriff Hldgs
Interims:
Airsprung Furniture
Courts
Expo Intl
Gibbon Group
Great Universal Stores
Harris (Philip)
IWP Intl.
Northern Electric
Northern Ireland Electricity
Plysu
Racal Electronics
Syltone

FRIDAY DECEMBER 6

COMPANY MEETINGS:
Associated British Foods, New Connaught Rooms, Great Queen Street, W.C., 11.00
Halstead (James), Holiday Inn, Crowne Plaza Midland, Peter Street, Manchester, 12.00
Highland Distilleries, Glasgow Hilton, 1, William Street, Glasgow, 12.00
Pressac, Village Hotel, Brailsford Way, Beeston, Nottingham, 11.00
BOARD MEETINGS:
Finals:
Bearing Power Intl
Wolverhampton & Dudley
Interims:
Brasway
General Electric
Samuel Heath & Sons

SATURDAY DECEMBER 7

COMPANY MEETINGS:
Cradley Group, Chester Road, Cradley Heath, Warley, W. Midlands, 10.30

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent annoucements.

Poor response to Olympics offering

By Nikki Tait in Sydney

Underwriters of the A$365m (US$297.3m) offering of securities in Sydney's planned Olympics stadium will decide this week how to proceed in the wake of a disappointing response from sports fans and investors.

The offer for sale period, which started two months ago, closed officially on Friday. The four broking firms underwriting the offer said results would not be available until early this week.

However, late last week they were pessimistic about selling all of the 34,400 "gold passes", which were priced at $10,000 each and give holders a guaranteed seat to each session of the Olympic Games in Sydney in 2000. The passes also entitle holders to 30-year stadium club membership and give them securities in the company which will own and manage the stadium. These will be listed on the stock exchange.

The complexity of the offer is thought to have been one reason for investors' lack of enthusiasm. Bankers have also mentioned technical problems in getting prospectuses distributed. Pricing may also have been a factor, although "focus groups" were used to test investor response ahead of the prospectus launch.

Nevertheless, a heavy advertising push during the final week may have minimised any shortfall, with some Stadium Australia representatives reporting a last-minute surge in applications. One of the four underwriters – Macquarie Bank – is also said to have promised applicants for units in its popular infrastructure trust, also being floated, higher allocations if they also apply for Stadium packages.

In contrast to the gold package difficulties, the sale of the smaller number of "platinum" packages is thought to have gone smoothly. Only 600 packages were on sale, at A$34,000 each and offering two guaranteed Olympic seats.

If the gold package offer is undersubscribed, one option might be to extend the offer. Another possibility, being mooted privately last week, was some form of "unbundling" of the various elements of the gold package.

Proceeds of the issue are guaranteed by underwriting agreements, and will fund about half the cost of the A$615m stadium once fees and expenses are paid. Remaining funding is coming from a mixture of debt and equity. The consortium building the stadium includes Japan's Obayashi Corporation, and Australia's Multiplex.

● Organisers of the Sydney Olympic Games last week sold the Japanese television rights for US$135m, about US$35m above the budgeted figure.

Citibank opens PC-based service for Asia region

By Laura Tyson in Taipei

Citibank, the US bank, yesterday opened a personal computer-based banking centre in Taiwan to serve as a regional hub, in a move to capitalise on fast-growing computer usage in Asia's developing economies.

A PC banking system is now under development and, following a Taiwan launch in mid-1997, will be offered in stages to customers in 19 countries in Asia, the Middle East and eastern and central Europe, said Mr Brian Clayton, managing director for the bank's north Asian consumer business.

The move is part of a new strategy for Citibank to develop into a global brand. Mr John Reed, chairman, recently said that over the next three years he would centralise processing from around the world into large and more efficient hubs.

"We are supportive of the Taiwan government's initiative to make Taiwan a regional operations centre, and our business base here is very strong – one of the strongest in the world," Mr Clayton said. "Taiwanese are very computer-literate and there is a high demand for convenience, which makes PC banking very appropriate for Taiwan but also has implications for the rest of the world."

The system will in 1998 be linked to a global Internet-based proprietary network through which customers can remotely access banking services.

Initially, the system will allow customers to check account balances, transfer funds, apply to open accounts, send and receive e-mail, access financial planning spreadsheets and peruse product and service introductions. Eventually the service will include Citibank card member services, investment services, financial management inquiries, facilities for changing a customer's personal information and international financial transactions.

"The system will give the customer the same facilities that he would have in a bank branch, except cash transactions," Mr Clayton said.

The menu of services will likely vary depending on banking regulations in each country in which the system operates, and the pace of telecommunications deregulation in each market.

The service will initially be offered in Chinese languages and in English for use in Taiwan, Hong Kong and Singapore, and later include other languages.

Tony Andrews

John Reed: aims to centralise processing in large hubs

Optus Communications postpones issue

By Bethan Hutton in Sydney

Optus Communications, the Australian telecommunications and cable television group, has been forced to postpone its planned stock market float by a legal dispute with a shareholder in its cable television subsidiary, Optus Vision.

The float had been scheduled to take place before Christmas, but has looked increasingly unlikely since the Seven Network, one of four shareholders in Optus Vision, launched legal proceedings against the other three in September.

The dispute centres on changed terms of an options agreement between Optus Vision and Mr Kerry Packer's Publishing and Broadcasting, a 5 per cent shareholder, which Seven says breached the shareholders' agreement. If Seven's case is upheld, it could be entitled to buy out its fellow shareholders in Optus Vision for 20 per cent less than cost.

Optus failed to secure an early hearing of the case by the Supreme Court, and had been looking for other strategies which might allow the float to go ahead. It now appears to be hoping to settle the dispute before issuing a prospectus.

Optus Communications and one of its main shareholders, Mayne Nickless, said the float would go ahead next year. Mr Russell Fynmore, Optus Communications chairman, said: "Timing of the float will be subject to further review of the situation with the Seven litigation, but Optus acknowledges Mayne's and other institutional investors' desire to seek the earliest possible date."

The Seven dispute is the main reason for the postponement, but other complications include the future status and voting power of two of the group's other major shareholders, Cable and Wireless and BellSouth, which may have to be referred to the Foreign Investments Review Board.

Lower bad debt provisions lift Leumi

By Judy Dempsey in Jerusalem

Bank Leumi, Israel's second-largest bank, surged ahead in its third quarter, reporting a 113 per cent rise in net income and a 10 per cent increase for the first nine months of the year. The results were fuelled by strong growth in its subsidiaries and a fall in provisions for bad debts.

The results do not take into account last week's sale of Bank Leumi's controlling stake in Africa-Israel, the property, insurance and tourism conglomerate, for $190m to Mr Lev Leviev, an Israeli businessman.

Profits from this sale, as well as the reduction of Bank Leumi's stake in Leumi Insurances Holdings are put at Shk400m ($123m).

Earnings per share for the nine months rose from Shk0.251 to Shk0.276 and for the third quarter from Shk0.056 to Shk0.121. Net annualised return on capital was 7.7 per cent compared with 7.4 per cent last year.

Net income for the third quarter rose from Shk80.27bn to Shk171bn, and for the nine months from Shk355.3bn to Shk390.7bn. Before provisions, financial income in the last quarter increased from Shk768.2m to Shk850.8m, and for the nine months from Shk2.31bn to Shk2.41bn.

Bank Leumi said the improvement in profits came despite a one-time provision of Shk190.8m to cover expenses for a voluntary retirement scheme, a cost-cutting measure which other Israeli banks are also undertaking in a move to improve competitiveness and efficiency.

Provisions for bad debts fell 28.1 per cent to Shk414.1m over the nine months. Over the same period, operating and other expenses, excluding costs of the voluntary retirement scheme, fell 0.5 per cent from Shk2.68bn to Shk2.67bn.

NEWS DIGEST

Banco di Napoli favourite emerges

Mediocredito Centrale, the medium and long-term credit institution wholly-owned by the Italian Treasury, will present a formal expression of interest today in buying 60 per cent of the equity of troubled Banco di Napoli. The group thus meets the deadline set by the Treasury and, unless other potential purchasers come forward, becomes the favourite to win control of Banco di Napoli.

Should there be higher offers, Mediocredito Centrale will be allowed to improve its bid at the auction planned for December 20. Mediocredito Centrale's commitment to participate in the auction permits the Treasury to proceed with its L2,000bn ($1.32bn) plan for Banco di Napoli's recapitalisation and means that the Neapolitan bank should avoid the prospect of liquidation at year-end.

David Lane, Rome

Big deal for Air Liquide

Air Liquide, the French industrial gases group, has signed its largest ever gas supply contract. The deal, to supply 4,600 tonnes of oxygen per day to a power plant in Sardinia, has been awarded by Sarlux, an independent power producer owned 55 per cent by Saras, an Italian oil refining company, and 45 per cent by Enron of the US. Air Liquide Italia's investment in the project is expected to total more than L170bn ($112m). The plant is due to start up by 1999.

David Owen, Paris

NRC rating under review

Moody's, the US rating agency, is considering downgrading the A3 debt rating of Australia's National Rail Corporation, the interstate freight rail business jointly owned by the federal government and the New South Wales and Victorian state governments.

The agency said it was reviewing NRC's rating in response to the federal government's recent announcement that it intends to privatise its 72.3 per cent stake. This sale is dependent on approval from the two state governments and the respective parliaments – meaning that the time-table is extremely uncertain.

"In addition to the concerns regarding the ultimate structure of the rail transport industry, the review will focus on the impact of any material decline in the level of government ownership and the pressure this could place on the level of support given NRC's short operating history, the ongoing need for significant subsidies from its shareholders due to the lack of sustained profitable operations, and its exposure to competitive pricing as new entrants enter the interstate rail-freight business," said Moody's.

Nikki Tait, Sydney

Hindustan Copper in the red

A sharp fall in the price of copper pushed Hindustan Copper, the Indian mining group, into a net loss of Rs732m ($20.56m) for the six months to September 30 from a profit of Rs322m a year earlier. Turnover was down 6.23 per cent from Rs5.153bn to Rs4.832bn. The lowering of customs duty from 40 per cent to 30 per cent on copper bar hit the sales of the country's only producer of copper.

The results were in line with expectations, however. Analysts say the second half would improve, since the copper price has recovered. The company said it would expand capacity of its smelter at Khetri in the northern Indian state of Rajasthan from 31,000 tonnes to 100,000 tonnes a year at an investment of Rs5.03bn to meet rising domestic demand.

Kunal Bose, Calcutta

FINANCIAL TIMES MARKETS THIS WEEK

Global Investor / Peter Martin

Cautious eye cast over copper

The copper market is, as the Sumitomo scandal showed, a world of its own. The rapid run-up in copper prices in the past few weeks is further proof. It is in large part a symptom of the speculative battle between longs and shorts – a struggle with its own logic, only vestigially attached to the rest of the investment universe.

None the less, the turmoil in the copper market does illustrate a number of trends relevant to investors in all markets. The first of these is shown in the chart: the uptick in the general level of commodity prices in the past few weeks.

Since the big leap in commodity prices in 1994, the general trend has been downwards – with occasional interruptions, of which the most significant came in the early part of this year.

All such recoveries have proved temporary, however, and it is still far too early to know whether this upturn will prove as brief.

Mr Leo Doyle, who has constructed a set of commodities indices for Kleinwort Benson in London, says that the short-term version of his index, which tracks momentum in commodity prices over the past four to six weeks, is reporting definite above-trend growth.

But this indicator sometimes shows a false dawn, he says, and the longer-term index, which measures the same pressures over a three to six-month period is still showing below-trend growth. We will not know for some time whether short-term commodity price rises are to be translated into something more significant.

If there is to be a sustained rise in commodity prices, however, it will stem from the second theme illustrated by the copper story: the role of demand from the emerging economies. One undoubted factor in the copper price surge has been demand from China, which has been absorbing copper at high rates.

The commodity bulls, such as Mr Steven Strongin of Goldman Sachs in New York, place great emphasis on the role of demand from outside the developed countries.

As non-OECD economies become an increasing influence on world manufacturing output, their role in shaping demand for commodities becomes ever more important. Although the Asian tigers have experienced slower growth in recent months, partly as a result of the rise in the dollar to which their currencies are mainly linked, other developing countries continue rapid expansion.

If the broad commodity price rise continues, what is it telling us about global inflation, and about the outlook for bond and equity prices? On their own, commodity prices have much less influence on the overall level of inflation in OECD countries than used to be the case. Goldman Sachs estimates that raw materials now account for only 5.3 per cent of total costs in the region.

The significance of commodity prices to the inflation debate lies elsewhere. Because the prices of most goods and services are administered by companies, it takes time for changes in supply and demand to feed through into the price level.

Even the speediest big company needs a breathing space to absorb market lessons and translate them into changes in price lists and discounts. Commodity prices react instantly, however, to the pressures of supply and demand. They offer a more sensitive and immediate indicator of inflationary pressures in the economy as a whole.

The scale of the upturn in commodity prices so far this autumn is certainly nothing to be concerned about. It does deserve a cautious eye, however, in case it becomes a longer-established and more substantial trend. As the chart shows, the periods of commodity price strength in the past three years have coincided with pauses in the global equity market – in 1994 and the early part of 1996. A further substantial rise in commodity prices, were one to occur, might again put equities on hold.

From the fixed-income point of view, the threat of a sustained rally in commodity prices lies in those bond markets, such as the US, which have most energetically discounted a slowdown in economic activity.

Rising commodity prices would not themselves threaten higher inflation. But they would suggest that the underlying prospects for economic activity are higher than the market currently believes. And that could undermine the current complacency about short-term dollar interest rates.

In such circumstances, the turmoil in the copper market might turn out to have wider relevance, after all.

Total return in local currency to 29/11/96

% change over period	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.10	0.01	0.08	0.06	0.16	0.11
Month	0.45	0.04	0.26	0.29	0.68	0.49
Year	5.63	0.55	3.88	5.50	10.61	6.61
Bonds 3-5 year						
Week	0.16	0.51	0.26	0.18	-0.02	0.45
Month	1.69	0.51	0.88	0.81	2.86	2.26
Year	5.44	2.92	7.23	10.92	24.13	7.24
Bonds 7-10 year						
Week	0.06	1.06	0.48	0.40	0.20	0.55
Month	3.00	1.27	1.89	1.76	4.94	0.99
Year	4.89	8.65	8.55	14.71	36.23	8.97
Equities						
Week	1.8	0.1	1.1	2.3	-1.2	2.3
Month	3.6	0.8	3.4	6.2	-5.4	0.8
Year	26.3	7.6	26.1	28.7	15.4	15.5

Source: Cash & Bonds – Lehman Brothers. Equities-© FT/Extel Inter Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

COMPANY RESULTS DUE

S&N will benefit from full Courage contribution

This is the peak week for UK drinks results with Scottish & Newcastle today, Bass on Wednesday and Grand Metropolitan on Thursday bracketed by a clutch of smaller brewers.

S&N, the UK's largest brewer, is expected to push interim pre-tax profits to about £190m, up 20 per cent. Brewing profits will be boosted by a full contribution from Courage, acquired last year, cost savings from the merger and underlying growth of about 12 per cent.

Leisure will be its weak sector, with profits off about 10 per cent. Expect an interim dividend of 7.1p, up 8 per cent and earnings of 23.6p, up 15 per cent.

Bass, number two brewer to S&N, is expected to report pre-tax profits of £665m, up 11 per cent, for the year ended September. Managed pubs and restaurants will be the best performers and Holiday Inn will be well ahead.

But brewing will have had a harder second half against a very strong summer a year earlier. Leisure and betting profits will be poor because of the National Lottery and jockey Frankie Dettori's seven wins one September day at Ascot.

Expect a full-year dividend of 24.5p, up 8 per cent, and earnings per share of 48.7p, up 12 per cent.

Grand Metropolitan is expected to lift pre-tax profits for the year to September by 6 per cent to about £968m.

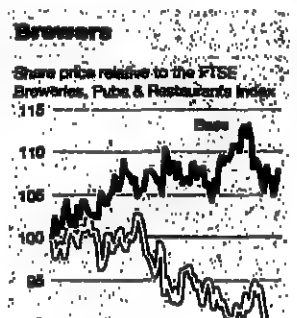
Progress at Pillsbury foods will be muted by the impact of the stronger pound on its dollar profits. In addition, Burger King will suffer from the lack of refranchising profits.

A full-year dividend of 15.95p, up 7 per cent, and earnings of 31.4p, up 5 per cent, are expected.

■ Siebe, the UK's largest diversified engineering group, is expected to report increased first-half profits of about £187m-£190m (£144.2m) tomorrow following improved contributions from its temperatures appliances and controls businesses, and maiden contributions from Unitech, the controls and power supplies company acquired for £520m in April.

■ Wessex Water rounds up the interim reporting season for the water sector tomorrow. After its proposed bid for neighbouring utility South West Water was blocked a month ago, the group is under some pressure to reveal "plan B". Wessex has previously said that it might consider other acquisitions or a share buy-back.

Wessex is expected to announce pre-tax profits up almost 6 per cent to £73m in the six months to September 30. An interim dividend of 5.7p is also forecast.



■ Scottish Power, the multi-utility, reports interim results on Wednesday which include a six-month contribution from Manweb, the English electricity company, and two months of Southern Water, its recently acquired English water and sewage services company. Analysts estimates of pre-tax profits range from £150m to £178m; most expect a £40m charge for reorganisation costs. Analysts expect a dividend of about 5.5p or 16 per cent up.

■ Great Universal Stores' recent US acquisition and the effects of the budget are likely to dominate the mail order retailer's interim results on Thursday. But the group will also be expected to highlight the next stage of its strategy, which should mark some attempt to revive the flagging core mail order business. Forecasts are for pre-tax profits of about £252m, against last year's £237.5m, on an FRS3 basis.

■ Hanson, the group built by Lords Hanson and White will unveil its final set of figures as a conglomerate on Thursday.

The company demerged Millennium Chemicals and Imperial Tobacco this summer, and is now finalising plans to float off The Energy Group, comprising Eastern Electricity and Peabody, the US coal producer.

The numbers will be of largely historic interest. But analysts will be picking through for clues about the likely performance of Energy, and of New Hanson – the on-going building materials business.

For the year to September 30, Kleinwort Benson, the broker, is expecting pre-tax profits of £1.14bn, (£1.287bn).

Analysts are also expecting a move from quarterly dividend payments to half-yearly dividends, and a more detailed timetable for the Energy Group demerger, planned for January.

■ MEPC, Britain's third largest property company, reports full-year results on Thursday.

Property values in the year to the end of September have largely marked time, and MEPC is expected to report only a slight increase in net asset value per share from 457p to 463p. Pre-tax profits are forecast to have increased from £122.6m to about £128m.

■ Analysts forecast only moderate improvements for Mr George Simpson's maiden interim results on Friday as managing director at the General Electric Company. Pre-tax profits are expected at about £420m, a 4 per cent increase on last year's £402m, and an interim dividend of 3.35p compares with 3.1p last year.

The market expects Mr Simpson to make some strategic changes, such as disposals in non-core activities.

LEGAL NOTICES

INTERNATIONAL EQUITIES By Conner Middelmann

Wariness of year-end sell-off

As syndicate officials recover from the exertions of Deutsche Telekom's jumbo share offering, the international equity market is slowly winding down towards year-end.

Investors, too, have been keeping a lower profile as they clear the decks. Indeed, some bankers are reporting unusually short-termist behaviour by some of their blue-chip clients who, they say, usually have a longer time horizon.

"Investors have been getting into new issues, but many have been unwilling to hold the stock for more than a few days," says one syndicate official. "Quite a few people are concerned about the risk of a year-end sell-off, and they're not taking any chances."

Many fund managers are busy formulating next year's asset-allocation plans. "A lot of people are looking at cyclical stocks, which tend to outperform during the first quarter," says one fund manager. "With robust European growth expected next year, cyclical stocks are likely to benefit."

Last week saw the completion of several deals. The sale of 7m global depositary receipts in the Suez Cement Company – the first Egyptian company to be listed in London and the second international equity offering out of Egypt – saw strong demand and was more than five times subscribed.

The issue was priced at $14.75 per GDR, a discount of 1.69 per cent to the average price of the shares from November 10-24. According to Salomon Brothers, global coordinator of the offering, some 61 per cent of total demand came from UK and other European institutions, 32 per cent from US institutions and 7 per cent from the rest of the world, including the Middle East.

Elsewhere, the sale of 9.31m shares in Global Steel Wire of Spain was concluded successfully, priced at Pta400 per share. The offering, hard on the heels of a highly successful IPO for TelePizza, the fast-food company, reflects the continued broadening of the Spanish stock market for mid-cap companies, dealers said. Merrill Lynch was global coordinator.

The deal pipeline still contains some offerings for completion in the coming weeks.

The sale of the Spanish government's remaining stake in Gas Natural is due to close today after a successful marketing period. Just over 1.4m shares are being sold – 60 per cent targeted at Spanish investors and the rest at European accounts. Since the mandate was awarded to joint global coordinators BBV and SBC Warburg, shares have risen about 20 per cent, resulting in "an element of price-sensitivity" among investors, said one banker.

Groupe AB, the French TV production company, is currently roadshowing its forthcoming offering of 11.2m shares. The company produces programmes for distribution on France's TF1 channel, and owns a satellite station. The offering is to be priced in the week of December 9. Morgan Stanley is global coordinator.

Meanwhile, dealers are eagerly awaiting the 2.65m IPO for ST Dupont, the French luxury goods maker. The company is owned by Dickson Concepts, the Hong Kong-based retailer, which is reducing its shareholding to 56.6 per cent of the outstanding ordinary shares, or 50.1 per cent assuming exercise of the over-allotment option.

The shares are due to be priced early this week in a range of FFr168-196; 80 per cent of the transaction is aimed at international institutions and the rest at French retail investors. Merrill Lynch is global coordinator.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY NOVEMBER 29 1996 US Dollar Index	% chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY NOVEMBER 28 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	Low	Year ago (approx)
Australia (76)	223.91	17.8	197.55	151.07	179.93	182.85	7.8	4.17	222.76	196.54	160.00	177.36	182.66	223.91	184.82	187.28
Austria (24)	185.94	8.5	164.05	133.76	148.59	148.52	14.4	1.93	185.92	163.69	133.25	147.72	147.65	195.04	168.36	170.11
Belgium (27)	229.42	8.3	202.77	162.88	190.94	178.80	16.8	3.77	228.57	199.02	162.02	179.61	176.75	229.11	197.59	197.50
Brazil (28)	179.94	30.5	158.76	129.44	143.79	342.14	36.6	1.78	179.63	158.75	128.24	143.47	341.60	189.70	131.21	133.29
Canada (115)	185.15	22.1	163.42	141.10	156.75	181.42	30.6	1.86	183.75	159.14	140.95	153.96	181.21	198.24	144.35	147.99
Denmark (33)	338.86	17.4	299.03	243.76	270.81	271.45	23.4	1.70	336.67	297.31	242.04	268.52	269.19	340.41	280.08	280.06
Finland (24)	236.01	26.2	208.23	169.78	188.60	228.33	33.9	2.20	234.34	206.75	168.32	186.94	225.94	240.85	171.73	225.06
France (93)	212.37	18.4	187.37	152.77	169.71	173.98	28.4	2.81	211.16	186.32	151.88	168.15	172.18	212.41	167.70	173.13
Germany (59)	187.55	15.6	165.48	134.92	149.88	149.88	23.1	1.86	186.16	164.24	133.71	148.23	148.23	188.59	159.62	160.67
Hong Kong (55)	507.89	51.0	448.10	365.35	405.86	504.17	31.0	3.07	504.76	445.34	362.56	401.92	501.05	512.26	366.27	368.27
Indonesia (27)	220.02	-	194.12	158.27	175.82	316.51	-	1.92	219.68	193.82	157.79	174.92	315.69	-	-	-
Ireland (16)	321.14	26.7	283.33	231.01	256.62	286.14	19.8	2.99	319.08	281.26	229.04	254.47	283.87	321.14	249.80	249.80
Italy (58)	82.40	11.8	72.70	59.27	65.85	93.22	6.6	2.23	81.84	72.20	58.78	65.18	92.37	84.53	67.27	67.72
Japan (480)	139.44	-10.0	123.03	100.31	111.43	100.31	-0.7	0.77	140.22	123.71	100.71	111.65	100.71	164.68	137.62	145.28
Malaysia (107)	601.51	24.0	530.70	432.69	480.69	495.09	22.4	1.67	603.24	533.92	434.72	481.93	588.81	607.65	457.54	457.54
Mexico (27)	1187.33	14.6	1047.56	854.10	948.82	10248.39	17.4	1.08	1182.29	1043.06	849.17	941.37	10189.97	1325.65	936.40	1047.82
Netherland (19)	328.68	19.9	289.40	235.96	261.22	257.30	23.9	2.87	323.93	285.80	232.67	257.93	254.03	328.12	263.22	264.28
New Zealand (15)	92.11	15.5	81.27	66.26	73.61	88.77	4.8	4.01	91.83	81.02	65.96	73.12	88.59	93.42	71.18	71.18
Norway (35)	281.90	21.9	248.72	202.78	225.27	245.47	23.8	2.06	280.16	247.18	201.23	223.08	243.27	283.54	222.24	226.85
Philippines (22)	198.11	-	174.79	142.51	158.32	259.62	-	0.8	195.16	172.20	140.18	155.41	255.60	-	-	-
Singapore (43)	412.81	1.4	364.21	296.95	329.88	260.60	0.8	1.01	415.57	366.65	298.49	330.90	268.46	465.21	371.28	379.81
South Africa (44)	326.14	-15.4	287.74	234.60	260.62	328.51	7.0	2.38	326.49	288.05	233.51	261.54	328.63	437.76	314.20	370.39
Spain (37)	200.06	21.1	176.51	143.91	159.87	196.27	29.3	3.04	198.59	175.21	142.64	158.13	194.16	200.06	157.66	158.26
Sweden (48)	414.81	32.2	365.99	298.39	331.48	412.00	34.5	2.07	410.63	362.30	294.87	326.68	407.28	416.67	294.19	318.84
Switzerland (37)	244.01	3.4	215.28	175.52	194.99	197.01	17.0	1.50	244.46	215.66	175.59	194.63	196.17	254.34	215.25	227.92
Thailand (45)	115.54	-31.3	101.94	83.12	92.33	114.53	-30.4	3.80	115.55	101.90	82.96	91.97	114.63	163.95	112.17	162.01
United Kingdom (213)	273.93	15.8	241.68	197.05	218.90	241.68	8.8	3.95	273.36	241.16	196.34	217.66	241.19	273.93	222.43	225.50
USA (623)	307.79	22.5	271.56	221.41	245.96	307.79	22.5	1.95	307.05	270.93	220.56	244.51	307.05	307.79	243.34	248.07
Americas (794)	281.50	22.9	248.36	202.50	224.95	298.67	23.0	1.93	280.89	247.83	201.75	223.66	296.15	281.50	222.53	226.95
Europe (720)	234.45	16.7	206.85	168.65	187.35	207.37	18.1	2.89	233.42	205.95	167.66	185.87	206.20	234.56	194.31	198.23
Nordic (137)	262.26	23.1	231.38	188.64	209.57	255.32	31.5	2.03	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Basin (878)	157.76	-4.5	139.19	113.48	126.07	114.34	2.7	1.24	158.35	139.71	113.73	126.08	114.66	177.01	152.98	168.03
Euro-Pacific (1598)	188.81	5.3	167.29	136.39	151.52	145.65	9.9	2.09	189.52	167.21	136.12	150.90	145.79	191.51	172.75	172.73
North America (738)	301.15	22.0	265.70	216.63	240.65	300.17	22.9	1.94	300.50	265.12	215.84	239.28	299.52	301.15	237.55	242.78
Europe Ex. UK (507)	208.44	15.5	183.91	149.94	166.57	176.98	23.0	2.27	207.26	182.85	148.86	165.02	173.69	209.70	174.81	178.23
Pacific Ex. Japan (398)	315.22	18.5	279.03	227.47	252.70	271.57	18.3	2.78	315.46	278.34	226.60	251.20	270.71	317.82	253.17	253.17
World Ex. US (1611)	191.76	6.0	169.20	137.96	153.26	152.24	10.8	2.08	191.71	169.14	137.70	152.66	151.93	193.47	173.84	173.84
World Ex. UK (2221)	223.94	12.2	197.59	161.09	178.96	192.23	16.3	1.81	223.69	197.36	160.67	178.11	191.91	224.89	194.14	194.14
World Ex. Japan (1954)	274.88	20.0	242.53	197.74	219.68	259.38	20.7	2.31	274.11	241.84	196.89	218.28	257.44	274.88	223.26	223.26
The World Index (2434)	228.23	12.8	201.36	164.17	182.38	190.91	15.8	2.02	227.95	201.12	163.73	181.51	190.49	228.87	196.89	196.89

MARKETS: This Week

NEW YORK By John Authers

Traders will return after a volatile week, which saw the Dow Jones share index move through 6,500 for the first time and then drop below that barrier before consolidating above it.

Volume was heavier than usual for a Thanksgiving week, when the market closes early on Wednesday and Friday and remains closed on Thursday. It ended the best month for the Dow since December 1991, with an 8.16 per cent gain.

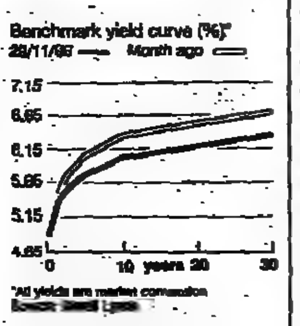
The bond market has helped to fuel the rise in stocks, and it continued its post-election strength last week, with the yield on the 30-year Treasury falling to 6.35 per cent on Friday, after profit-takers foiled an earlier rally on Tuesday. This is long bond's lowest yield since early March. It has spent much of the year around the 7 per cent level.

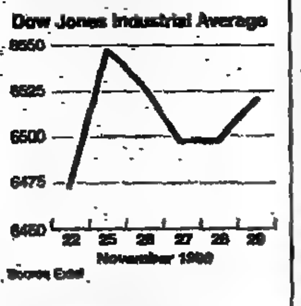
The election result dominated last month's rally, with the market believing continued Republican majorities in Congress present the best opportunity for a sustained programme of deficit cuts.

Speculation now focuses on the chances for stocks to sustain their rally, and on the likely causes for a correction. Analysts say figures showing the economy overheating, and thus bringing a rise in interest rates, would be most likely to have this effect.

Last week's data, released on Wednesday morning as most dealers were preparing to leave for their long weekend, tended to suggest the economy was stronger than had been predicted, but not by enough to have a sharp effect on prices.

Figures from retailers, now entering their peak selling season, will also be under close scrutiny for signs of overheating.





LONDON By Philip Coggan

With the UK Budget out of the way, the London equity market has the chance to enjoy one of its regular year-end rallies. December is the start of the best two-month period of the investment year, according to Mr David Schwartz, the stock market historian.

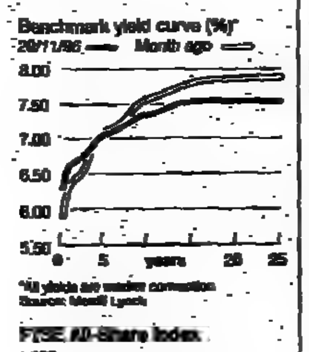
However, the market has a number of hurdles to overcome. Even though the Budget was far from profligate, it still looks as if interest rates will have to be raised if the chancellor is to meet his 2.5 per cent inflation target.

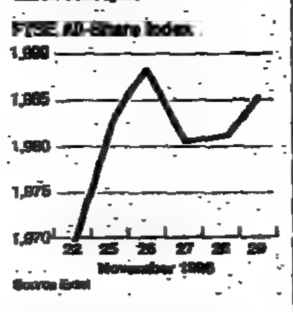
As investors, domestic and international, start to look forward to 1997, political risk is likely to make them cautious. And the recent strength of sterling is encouraging analysts to shade down their estimates of earnings growth in some sectors.

Nevertheless, with the economy picking up speed, earnings growth should be fairly buoyant. Although there have been a number of profits warnings in recent weeks, they have been concentrated in the smaller company sector; figures from FT-SE 100 constituents have been looking pretty healthy.

Among the leading stocks to report this week are Bass, Carlton, GEC, Grand-Met, GUS, Hanson, Scottish & Newcastle, Scottish Power and Siebe.

Gilt investors will be looking for further signs of inflationary pressure in the M0 money supply figures and the purchasing managers index, published today, and the industrial production and manufacturing output figures on Friday. While gilt yields slipped below Italian government bond yields last week, investors remain nervous about the recent rise in the inflation rate.





FRANKFURT By Andrew Fisher

All signals were on green last week as the German stock market touched another record high and bond yields fell further.

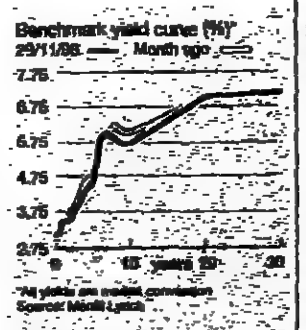
On Wednesday, investors will be able to assess the strength of underlying economic developments when third-quarter gross domestic product figures are released. Also due are production and new order inflow data, as well as November unemployment.

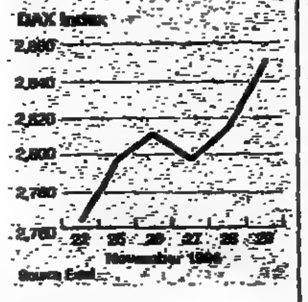
Growth in GDP is expected to be around 1.6 per cent year-on-year and 0.8 per cent over the second quarter, with exports exerting a strong impetus. However, the recovery remains patchy.

"As strong exports and car sales have not ignited any multiplier effects yet, the recovery has still to be called cyclical," says Mr Eckhard Schulte, economist at IBJ Research. But "the green shoots of the recovery might be blooming soon".

J.P. Morgan expects GDP to stagnate in the fourth quarter, highlighted by a rise in seasonally adjusted unemployment for last month. But economic weakness is not expected to persist, the bank says. "A pattern of a strong couple of quarters followed by a very weak quarter is not unusual for an early recovery phase in Germany."

The extent of economic recovery will have a strong influence on whether Germany, and its European partners, can meet the criteria for monetary union. French talk of the need for a softer French franc as Emu approaches have unsettled German advocates of a hard monetary and fiscal line. The Bundesbank is not thought likely to ease its policies further to help France, though further cuts in short-term interest rates are not totally ruled out.





TOKYO By Gwen Robinson

Markets are likely to stay hesitant this week after investors' tepid response to last week's Bank of Japan's tankan quarterly survey of business confidence.

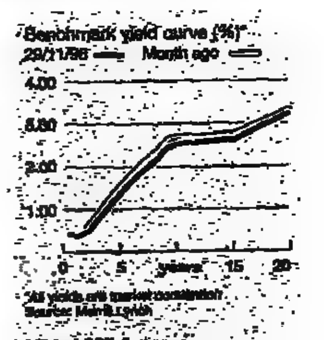
Although the tankan's results were in line with predictions of a lukewarm recovery in business sentiment, equities reflected disappointment at weaker than expected sentiment in the manufacturing sector.

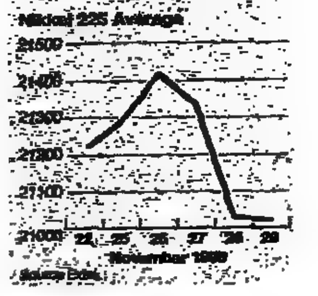
US mutual funds and other foreign investors were on pause for the Thanksgiving holiday in the US, but domestic institutional investors continued steady buying of international blue chips.

The recent buying binge in export-oriented blue chips, particularly car-makers and electricals, has underlined a growing polarisation between strong performers with international competitiveness and lagging stocks, such as those in construction and banking, which are facing tough domestic operating conditions.

The Nikkei 225 closed at 21,020.38 on Friday after starting the week at 21,293.57. "In the coming week, the market if anything seems to be in a mood to move sideways," said Mr Jason James of James Capel. However, market activity is likely to pick up in the second half of December, following pension funds' reallocation of money to fund managers, which takes place on June 16 and December 16 every year. "That will certainly channel some fresh funds into the markets," Mr James said.

Bonds are also likely to reflect uncertainty, after easing last week despite reassurance from the tankan that Japanese monetary policy will remain loose for the foreseeable future.





COMMODITIES By Deborah Hargreaves

Oil set for jittery opening

World oil markets are set for a jittery open this morning as traders digest a flurry of news which was released last week when the New York Mercantile Exchange was closed for the Thanksgiving holiday.

Traders will need to assess whether world oil demand can absorb the expected $2bn-worth of oil sales from Iraq in an oil-for-food agreement which was finalised with the United Nations last week.

The price of North Sea Brent crude slipped in thin trading towards the end of last week to close at $22.70 a barrel on Friday.

However, so far oil traders have taken a sanguine view of expected oil demand and analysts say the price is unlikely to collapse.

Stocks, particularly of heating oil, are at their lowest levels for many years. Prices will be supported by the cold weather in the US over the weekend – traders are very nervous about any drop in temperatures since stocks are low.

Gulf officials said last week they did not expect Iraqi supply to undermine the oil price's new range, which they put at $20 to $25 a barrel compared with $15 to $20 a barrel in recent years.

Traders have also remained calm about a return of Iraqi oil to the market, as they point out there are still many technical difficulties to be resolved before oil starts to flow. Those details, however, are gradually falling into place.

Turkish officials said last week the main pipeline through which Iraqi oil could flow will be up and running by December 15.

Iraq's news agency reported yesterday that experts from Lloyd's Shipping Intelligence arrived over the weekend in the northern town of Zakho to inspect preparations for the flow of humanitarian goods involved in the oil deal.

The news agency said the first batch of international oil monitors was expected to arrive on Thursday. These officials must inspect Iraqi installations before the taps can be turned on.

OTHER MARKETS Compiled by Jeffrey Brown

The bull run across leading European bourses held in place last week, mostly owing to a strong showing for bond markets.

PARIS

The leading CAC 40 index hit another string of new highs for the year last week, but volume was on the low side as worries about the franc overshadowed trading.

Although the outbreak of peace in the 12-day old truck drivers' strike cheered the market on Friday and took some of the recent pressure off the foreign exchanges, brokers expected economics and the government's franc fort policy to remain in sharp focus.

Hotels group Accor, which has been linked with a bid for Club Med in recent sessions, meets with analysts on Thursday. Salomon, the highly rated sports goods producer which has had a strong share price run this year, puts out interim results today.

MILAN

Leading Italian shares have been steadfastly mixed since the lira rejoined the ERM eight days ago. Blue-chips such as Fiat and Olivetti have had an especially torrid time this year.

However, the Milan stock market rallied on Friday, on firm bonds and a better day for the lira as talk turned to the possibility of an official downward nudge in interest rates. Best bets among brokers suggested a reduction of 50 basis points.

The official CPI for November, due Thursday, is expected to confirm a decline to 2.6 per cent for inflation year-on-year from 3 per cent in October. This is seen as paving the way for a downward move by the Bank of Italy.

STOCKHOLM

Last week's proposed merger between Skandia and mortgage bank Stadshypotek kept the takeover pot simmering among Nordic markets. But the Swedish government may yet find a more generous buyer for its 34 per cent Stadshypotek stake. Bid gossips may this week turn their attention to Astra, tipped by some to be the preferred target of Swiss drugs giant, Roche.

MADRID

Rate cuts were also a talking point in Madrid, where monthly bond auctions take place this week and where the Bank of Spain is widely expected to trim its marker rates at tomorrow's repo tender.

The last cut was by half a percentage point to 6.75 per cent at the start of October, and another reduction has long been on the cards. This prospect may well extend the share market rally beyond the 24 per cent advance shown this year.

HONG KONG

Cautious trading is expected at the start of this week, but the territory's increasingly bullish dealers reckon the rally will be under way again by Friday, writes Louise Lucas in Hong Kong.

Last week the benchmark Hang Seng index gained 2.1 per cent to 13,293.93, despite a sharp fall on Thursday. Erratic trading that day prompted stock exchange officials to launch a round of enquiries with several brokers. This probe – coupled with a desire to take a lead from Wall Street – is likely to dampen trading today, brokers said.

Another concern is the rush of activity among covered warrant issuing banks. Last week saw the issue of more warrants on blue-chips, and targeted stocks this week could also find their share prices affected.

But the essential bullish theme remains, fuelled by robustness in the property sector, perceived market value and liquidity. Much of the money pouring in over recent weeks has come from overseas, but brokers are also spotting a pick-up in local retail activity.

CURRENCIES By Simon Kuper

Debate over stability pact could boost D-Mark

The likely contents of a stability pact for European monetary union should become clearer this week. As Germany presses for a hawkish document, the D-Mark could rise.

The pact would detail fiscal targets that countries wishing to join EMU would have to meet for years into the future.

It is only expected to be signed next year, but the debate could accelerate today when the European Union finance committee meets in Brussels.

Germany is seeking a strict pact, which would force participating nations to run tight fiscal and monetary policies. Most other states are seeking a weaker version, which would allow them more scope to stimulate their economies in case of a recession.

If Germany wins, leading to tighter policy in a future Emu zone, the chances of the euro becoming a strong currency would rise. That could boost the D-Mark. Germany is expected to hold firm on the issue.

French unemployment data, out today, will be watched more closely than usual. Last week several French politicians and policymakers called for a franc devaluation against the dollar, in order to boost French exports and reduce unemployment.

If the October jobless total rises as expected, their calls could gain force and the franc could slide further.

The US publishes its non-farm payroll figure on Friday. This indicator has been strong in most of the last few months.

Another rise would suggest that the US economy is still growing fast enough to warrant a rate rise soon. That should help the dollar.

German industrial production and GDP data will be scanned for signs that the country's economic recovery continues.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Southern Co (US)	Cepa (HK)	Power	$2.7bn	Shareholders approve
ABN Amro (N'lands)	Standard Federal Bancorp (US)	Banking	$1.95bn	Biggest buy yet
KPN (N'lands)	TNT (Australia)	Transport	$1.62bn	Offer extended
Placer Dome (Canada)	Highlands Gold (PNG)	Mining	$341m	"Inadequate" says Highlands
Pearson (UK)	Putnam Berkley (US)	Publishing	$336m	Buying restarts
IMI (UK)	ISI Automation (US)	Industrial machinery	$150m	Sector spring-board
GKN (UK)/Brambles (Australia)	Mabeg (Germany)	Waste management	$92m	Buy via Cleanaway

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, November 29, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Abbreviations: [illegible]

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MARKETS: This Week

EMERGING MARKETS By Manuela Saragosa

Indonesia springs back to life

A few months ago no-one would have advised the state-owned Bank Negara Indonesia to stage an initial public offering before the end of the year. The stock market was sagging after the July political riots, the country's trade balance looked bleak – with imports growing faster than exports – and there were doubts about 75-year-old President Suharto's health.

But as BNI made its initial public offering last week, the outlook for Indonesian shares could not have been brighter – a transition helped by strengthening economic fundamentals.

Healthy foreign direct investment inflows are supporting the country's balance of payments and the rupiah; the country's exports are holding up well at a time when the rest of the region is experiencing an export decline; there is room for interest rates to ease as inflation falls; and political concerns have receded as Mr Suharto has shown himself firmly in control.

"We think the bulls have this one right," says an HG Asia report. "This market remains attractive." The performance of presidential family-related stocks such as the conglomerate Bimantara Citra and the toll-road operator Citra Marga Nusaphala Persada give an indication of how far political concerns have drifted to the background: shares in the companies have risen 47 per cent and 23 per cent, respectively, since September.

The Indonesian market is trading at a price/earnings ratio of between 14 and 16 times 1997 earnings, one of the lowest valuations in the region. The Jakarta composite index has risen about 15 per cent since the July riots, and next year earnings are expected to rise by as much as 25 per cent, according to some analysts.

The BNI offering, 4.5 times subscribed and the country's only privatisation this year, was the kind of IPO needed to refocus investors' attention on Indonesia. "There are relatively few funds that are overweight on Indonesia and the general feel is that people will be buying on short-term corrections," says Mr Robert Allison, sales director at Asia Equity.

But, equally, the offering underlined the shift in the market, from being almost the exclusive domain of trading by foreign institutional investors to one where local buyers are setting the pace.

In addition, government privatisations such as BNI, Telkom last year, and Indosat in 1994 have boosted liquidity. This has dispelled concerns that once in the market, fund managers could not get out. Brokers say that the value of average daily trading now amounts to about US$150m compared with between $10m and $15m four years ago.

Local participation will become increasingly important, ahead of next year's parliamentary elections and the presidential election which will follow, to help steel the market against volatility caused by political uncertainties.

Foreign fund managers have proved themselves far more susceptible to political jitters than local investors. "We have seen very encouraging growth in domestic participation," says Mr Jonathan Harris, research director at HSBC James Capel. "I'm sure the market would have fallen further after the riots if there had not been local bargain hunting."

Shares in BNI, which accounted for 2.61 per cent of the stock market's total capitalisation as of last Friday, were bought mainly by local investors in the first days of trading, pushing the shares from their offering price of Rp850 to Rp1,175 at Friday's close, after hitting an intra-week high of Rp1,300.

That rise came in spite of the bank's weak fundamentals – there are concerns about the quality of its assets and loan portfolio – which have kept many foreign buyers on the sidelines, waiting for the share price to stabilise.

That foreigners are poised to buy more is not in doubt. "The major markets in the world have topped out," argues Mr Peter Arkell, a representative for Kleinwort Benson Securities in Jakarta. "[Because] Jakarta would come out as one of the cheaper markets in Asia, fund rotation may benefit markets like Indonesia."

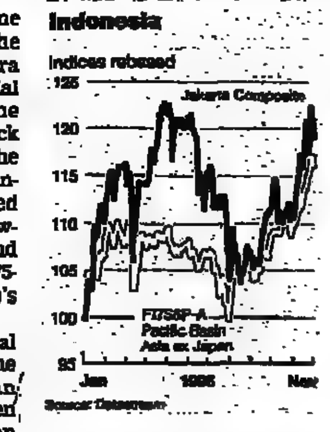
Meanwhile, the fact that so many foreign fund managers were frustrated by not getting the BNI allocations they requested has served the Jakarta Stock Exchange well. Many fund managers ended up putting their money elsewhere in the market. Shares in Telkom, the domestic telecoms firm, and Bank International Indonesia, one of the county's leading commercial banks, rose 8 per cent and 21 per cent, respectively, two weeks before BNI's listing.

In spite of the optimism, there are two factors which may temper enthusiasm. Telkom, is believed to be gearing up for a second tranche, rumoured to be as large as 1.4bn shares, or about 15 per cent of the company. Also, the parliamentary elections scheduled for May will keep some investors edgy.

However, "people have been cheered by how quickly the market sprung back to life by the little good news that came with BNI's IPO", says HSBC James Capel's Mr Harris.

Indonesia

Indices rebased



ING BARING SECURITIES EMERGING MARKETS INDICES

Index	29/11/96	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date Actual	Percent
World (447)	188.45	-1.35	-0.85	+6.57	+1.95	+10.89	+7.36
Latin America							
Argentina (22)	100.26	-1.21	-1.19	+4.98	+5.22	+7.48	+8.07
Brazil (24)	246.39	-0.43	-0.20	+1.42	+0.58	+60.30	+32.40
Chile (16)	171.15	-5.31	-3.01	-15.86	-8.51	-24.31	-12.53
Colombia (13)	176.48	+3.90	+2.21	-2.56	-1.44	+11.23	+6.84
Mexico (27)	79.26	-1.36	-1.69	+0.16	+0.23	+5.60	+7.73
Peru (12)	1021.85	-34.86	-3.31	-121.57	-10.64	-47.10	-4.41
Venezuela (6)	59.59	-1.76	-2.85	-1.97	-3.20	+32.09	+116.66
Latin America (119)	138.73	-1.71	-1.22	-1.30	-0.93	+15.59	+12.66
Europe							
Czech Rep (14)	97.34	-2.60	-2.60	-5.90	-5.65	+21.04	+27.56
Greece (20)	111.49	-0.44	-0.36	-6.18	-5.25	+13.52	+13.80
Poland (23)	336.45	-0.12	-0.04	+21.92	+6.84	+135.29	+67.26
Portugal (19)	140.85	-3.74	-1.91	+3.47	+2.53	+24.22	+20.80
South Africa (30)	133.12	+0.03	+0.02	+0.41	+0.31	-20.26	-13.21
Turkey (27)	121.53	+3.37	+2.85	+2.59	+2.18	+38.73	+46.78
Europe (134)	118.41	-0.31	-0.26	+0.33	+0.28	-3.13	-2.57
Asia							
China (26)	46.94	+1.24	+2.72	+2.74	+6.19	+5.62	+16.41
Indonesia (30)	151.87	-2.25	-1.46	+11.61	+8.29	+13.03	+9.40
Korea (23)	92.82	-1.61	-1.71	-2.11	-2.23	-44.26	-32.35
Malaysia (24)	276.47	+0.28	+0.10	+10.67	+4.01	+49.11	+21.60
Pakistan (13)	66.49	-0.89	-1.33	-1.02	-1.51	-7.11	-9.66
Philippines (16)	304.65	-0.38	-0.12	+20.35	+7.15	+48.71	+17.64
Taiwan (31)	163.66	+1.46	+0.90	+13.22	+7.78	+52.84	+40.36
Thailand (28)	175.93	-11.14	-5.96	+0.58	+0.37	-75.96	-30.16
Asia (193)	218.69	-1.71	-0.78	+9.75	+4.67	+15.54	+7.66

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By Richard Adams

Convergence not whole story for Italy's yields

One year ago today, Italy's benchmark 10-year government bond yielded 538 basis points above its German equivalent. This morning, the benchmark Buoni del Tesoro Poliennali (BTP) yielded 188 basis points over bunds.

That 350 basis point narrowing of the yield spread tells the story of the European bond market this year, as yields have converged towards Germany's on the approach to European monetary union. But will bond markets continue reading from the same script in 1997? Or will 1996's buzzword, "convergence", be replaced with "deconvergence"?

Received wisdom has attributed Italy's success in driving down its bond yields to "convergence euphoria that has swept aside consideration of fundamentals", in the words of one commentator.

That view is supported by analysts at Bear Stearns in London, who changed tack on convergence trades last month. Since mid-1995, Bear Stearns has been a self-described "mega-convergence bull", earning it the nickname 'Bull Stearns'.

"The market has already gorged itself on the whole Euro-convergence cake – it's now lapping up the icing. It is now time to start thinking about tucking into the next big feast – the deconvergence gâteau," said Mr David Brown, an analyst at Bear Stearns.

More prosaically, Bear Stearns thinks the good news for Italy is already priced into its bonds – the passage of the 1997 budget, falling inflation and, last weekend, re-entry to the exchange rate mechanism. And it thinks there are dangers that the Emu process could unravel. Only one of those is economic: that continuing low growth in Europe will cause budget deficits to bulge.

But there are many investors who expect BTP yields to continue falling in the next six months, for reasons more to do with Italy's economic fundamentals.

A big reason for Italy's shrinking yields has been its sharp fall in inflation, from a peak of more than 7.5 per cent in mid-1995 to around 2.5 per cent. Inflation could fall even further, if the most recent forecasts for 1997 GDP growth of 1 per cent prove correct, against the government's prediction of 2 per cent.

Low inflation and low growth may see the Bank of Italy cut interest rates by more than anticipated. Mr Adrian Owens, an economist at Julius Baer Investments in London, expects a cut of 200 basis points in the discount rate within the next year.

Mr Owens points out that a 1 per cent shortfall in growth would add L7,000bn ($4.6bn) to the government's budget deficit, but a 2 per cent fall in interest rates would save it L22,000bn on debt servicing. "The government's budget is based on unchanged interest rates, so any reduction is a bonus," he said.

Apart from interest rate risk, the lira's re-entry to the discipline of the ERM suggests a decreasing exchange rate risk, giving yields further scope to fall.

There are fears the lira's ERM central rate of L990 may harm Italy's booming export sector. After the 1992 lira devaluation, Italy gained significant export market share, defined in the chart here as the ratio of exports to trading partners' import demand. A stronger currency could cut the country's healthy current account surplus, forecast to be about 8 per cent of GDP this year.

However, Ms Ilaria Fornari, an economist at J. P. Morgan in Milan, said the prospects for Italy's trade performance remain good, in spite of the lira's appreciation.

Ms Fornari said the economy's slow growth should keep the current account surplus strong, as import demand in Italy is much more sensitive to higher domestic growth than to lower prices.

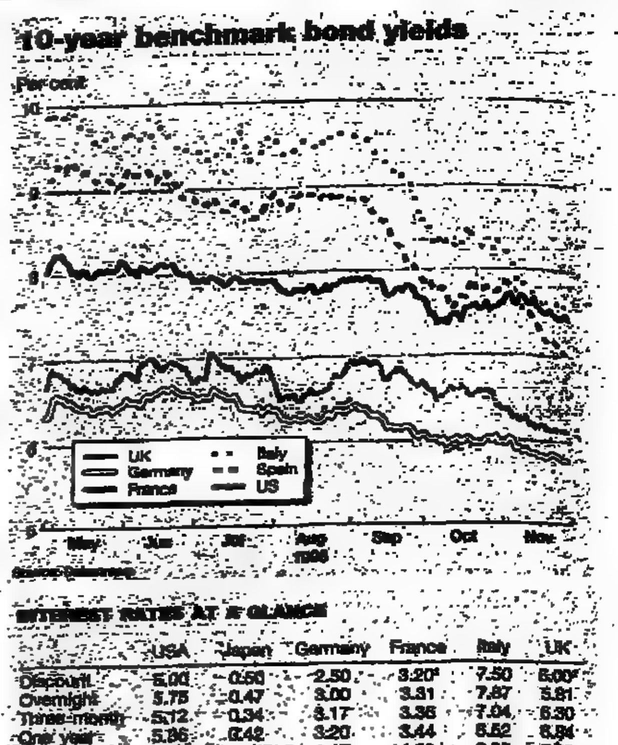
"We expect the current account surplus to stay significantly above 2 per cent of GDP in the next two years," she said.

The only cloud on the horizon is the 1998 budget. A number of one-off measures allowed the government to cut its deficit for 1997. Ms Fornari says she expects a deficit of at least 7 per cent in 1998, unless serious fiscal reforms are made.

But for next year, the economic outlook for BTPs is healthy: positive trade balances, low inflation, falling interest rates and a stable currency – and Emu convergence, too. "I think the spread against Germany still has room to narrow to 150 basis points," Ms Fornari said.

10-year benchmark bond yields

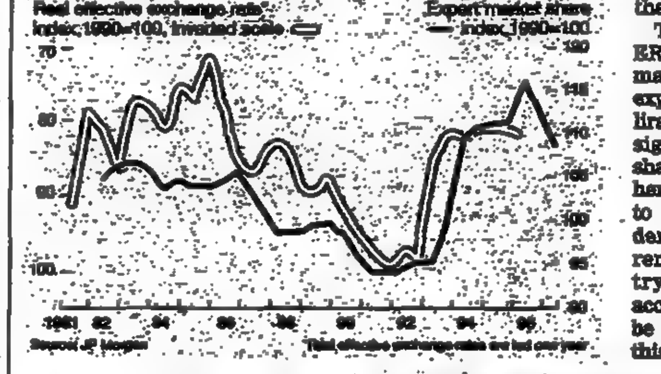
Per cent



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.20	7.50	6.00
Overnight	5.75	0.47	3.00	3.31	7.97	5.81
Three month	5.12	0.34	3.17	3.35	7.04	6.30
One year	5.36	0.42	3.20	3.44	6.62	6.84
Five year	5.84	1.44	4.47	4.58	6.85	7.08
Ten year	6.05	2.53	5.81	5.59	7.55	7.33

Italy: exchange rate and export market share



NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-MARKS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANCS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
STERLING							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FRENCH FRANCS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LUXEMBOURG FRANCS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ITALIAN LIRE							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRALIAN DOLLARS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PESETAS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DANISH KRONER							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ESCUDOS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NEW ZEALAND DOLLARS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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محكمة من الأرشيف

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Nov 29		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	18.1759	+0.0653	682 - 866	18.2009	18.0946	18.1324	2.8	18.0759	2.2	-	-	104.0
Belgium	(BFr)	53.2320	+0.2059	825 - 814	53.3000	52.9740	53.107	2.8	52.842	2.9	51.647	3.0	105.2
Denmark	(DKr)	9.8960	+0.0287	913 - 006	9.9130	9.8656	9.8781	2.4	9.8356	2.4	9.6598	2.4	105.7
Finland	(FM)	7.7455	+0.0262	370 - 542	7.7550	7.7090	-	-	-	-	-	-	84.2
France	(FFr)	8.7756	+0.0417	719 - 792	8.7845	8.7318	8.7548	2.8	8.7132	2.8	8.5085	3.0	107.3
Germany	(DM)	2.5828	+0.0093	813 - 842	2.5873	2.5712	2.5763	3.0	2.563	3.1	2.4983	3.3	107.1
Greece	(Dr)	408.448	+1.496	226 - 670	407.237	404.754	-	-	-	-	-	-	67.1
Ireland	(I£)	0.9995	+0.0005	987 - 002	1.0013	0.9966	0.9992	0.4	0.9982	0.5	0.9917	0.8	103.0
Italy	(L)	2546.52	+6	403 - 092	2549.51	2536.06	2549.32	-1.3	2556.62	-1.6	2581.32	-1.4	78.0
Luxembourg	(LFr)	53.2320	+0.2059	825 - 814	53.3000	52.9740	53.107	2.8	52.842	2.9	51.647	3.0	105.2
Netherlands	(Fl)	2.8976	+0.0107	953 - 992	2.9005	2.8845	2.89	3.2	2.8745	3.2	2.801	3.3	105.3
Norway	(NKr)	10.7786	+0.03	747 - 845	10.7930	10.7273	10.7671	1.3	10.7471	1.2	10.6421	1.3	99.6
Portugal	(Es)	260.786	+0.897	604 - 967	261.235	259.983	260.981	-0.9	261.331	-0.9	-	-	95.3
Spain	(Pta)	217.596	+0.748	450 - 743	217.894	215.894	217.764	-0.9	217.994	-0.7	217.994	-0.2	79.4
Sweden	(SKr)	11.2791	+0.0164	673 - 908	11.2910	11.2298	11.2779	0.1	11.2752	0.1	11.2629	0.1	88.9
Switzerland	(SFr)	2.1865	+0.0103	843 - 887	2.1904	2.1712	2.1803	4.4	2.165	4.2	2.0936	4.5	105.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	94.0
Ecu	-	1.3379	+0.0042	371 - 386	1.3393	1.3331	1.336	1.7	1.3318	1.8	1.3101	2.1	-
SDR†	-	1.164300	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6796	-0.0005	791 - 801	1.6842	1.6778	-	-	-	-	-	-	-
Brazil	(R$)	1.7398	+0.0007	391 - 384	1.7391	1.7327	-	-	-	-	-	-	-
Canada	(C$)	2.2645	+0.0034	634 - 656	2.2715	2.2603	2.2593	2.7	2.2495	2.6	2.1895	3.3	85.6
Mexico	(New Peso)	13.2692	+0.0202	553 - 750	13.2764	13.2411	-	-	-	-	-	-	-
USA	($)	1.6803	-	798 - 808	1.6843	1.6760	1.6795	0.6	1.6788	0.6	1.6614	1.1	97.5
Pacific/Middle East/Africa													
Australia	(A$)	2.0832	-0.0085	819 - 844	2.0796	2.0609	2.0845	-0.8	2.0862	-0.4	2.0845	-0.1	88.6
Hong Kong	(HK$)	12.9921	-0.0007	874 - 968	13.0240	12.9753	12.9848	0.7	12.971	0.7	12.9084	0.7	-
India	(Rs)	60.0204	-0.0033	437 - 970	60.1890	59.8830	-	-	-	-	-	-	-
Israel	(Shk)	5.4751	+0.008	671 - 831	5.4845	5.4655	-	-	-	-	-	-	-
Japan	(Y)	191.216	+0.286	077 - 359	191.490	190.290	190.288	5.8	188.433	5.8	180.016	5.9	128.0
Malaysia	(M$)	4.2470	+0.0026	449 - 491	4.2554	4.2365	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3808	-0.009	789 - 827	2.3735	2.3361	2.3876	-3.4	2.3798	-3.7	2.3877	-1.6	112.0
Philippines	(Peso)	44.1694	+0.0143	519 - 849	44.2750	44.1454	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.3016	-0.0002	996 - 040	6.3172	6.2935	-	-	-	-	-	-	-
Singapore	(S$)	2.3565	+0.0011	552 - 578	2.3615	2.3522	-	-	-	-	-	-	-
South Africa	(R)	7.7437	+0.0521	372 - 502	7.7563	7.6791	-	-	-	-	-	-	-
South Korea	(Won)	1392.88	+0.33	222 - 355	1396.11	1390.73	-	-	-	-	-	-	-
Taiwan	(T$)	46.1868	-0.0017	743 - 993	46.3035	46.1349	-	-	-	-	-	-	-
Thailand	(Bt)	42.9157	+0.0092	887 - 327	43.0040	42.8230	-	-	-	-	-	-	-

† Rates for Nov 27. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 29		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	10.8171	+0.0399	139 - 202	10.8270	10.7780	10.8024	1.6	10.7571	2.2	10.5621	2.4	104.4
Belgium	(BFr)	31.6800	+0.1225	600 - 000	31.7100	31.5650	31.62	2.3	31.4925	2.4	30.9625	2.3	105.2
Denmark	(DKr)	5.8894	+0.0108	864 - 904	5.8935	5.8738	5.8805	1.8	5.8621	1.9	5.7804	1.9	106.2
Finland	(FM)	4.6097	+0.0156	059 - 134	4.6137	4.5837	4.6009	2.3	4.5822	2.4	4.4997	2.4	83.6
France	(FFr)	5.2226	+0.0246	220 - 232	5.2311	5.2012	5.2142	1.9	5.1983	2.0	5.1206	2.0	107.5
Germany	(DM)	1.5371	+0.0055	367 - 375	1.5398	1.5316	1.5342	2.3	1.5282	2.3	1.5034	2.2	108.8
Greece	(Dr)	241.890	+0.89	000 - 950	242.500	241.050	243.445	-7.7	246.015	-6.8	257.04	-6.3	66.9
Ireland	(I£)	1.6815	-0.0007	805 - 820	1.6852	1.6780	1.6808	0.5	1.6805	0.2	1.6776	0.2	-
Italy	(L)	1515.50	+0.57	400 - 524	1515.40	1510.30	1518.03	-2.5	1524.32	-2.3	1537.57	-1.5	77.3
Luxembourg	(LFr)	31.6800	+0.1225	600 - 000	31.7100	31.5650	31.62	2.3	31.4925	2.4	30.9625	2.3	105.2
Netherlands	(Fl)	1.7244	+0.0064	242 - 249	1.7261	1.7184	1.7208	2.6	1.7128	2.7	1.6772	2.7	105.2
Norway	(NKr)	6.4153	+0.0179	143 - 163	6.4227	6.3762	6.4116	0.7	6.4059	0.6	6.3603	0.9	96.8
Portugal	(Es)	155.190	+0.415	140 - 240	155.470	154.310	155.395	-1.6	155.89	-1.8	158.465	-2.1	95.6
Spain	(Pta)	129.500	+0.445	450 - 550	129.770	128.960	129.68	-1.7	129.94	-1.4	130.805	-1.0	79.5
Sweden	(SKr)	6.7125	+0.0109	075 - 175	6.7200	6.6795	6.7097	0.5	6.6999	0.8	6.6525	0.8	86.7
Switzerland	(SFr)	1.3023	+0.0070	018 - 028	1.3035	1.2936	1.2995	2.5	1.2907	3.5	1.2578	3.4	107.6
UK	(£)	1.6803	-	798 - 808	1.6845	1.6760	1.6795	0.6	1.6788	0.6	1.6614	1.1	93.1
Ecu	-	1.2560	-0.004	556 - 563	1.2587	1.2546	1.2573	-1.3	1.2605	-1.4	1.2771	-1.7	-
SDR†	-	0.69290	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-0.0003	996 - 998	0.9997	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.0330	+0.0004	329 - 331	1.0333	1.0326	-	-	-	-	-	-	-
Canada	(C$)	1.3477	+0.0002	474 - 479	1.3503	1.3468	1.3453	2.1	1.3403	2.2	1.3128	2.6	85.1
Mexico	(New Peso)	7.8945	+0.012	910 - 980	7.8980	7.8910	8.0125	-17.9	8.279	-19.5	9.1395	-15.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.0
Pacific/Middle East/Africa													
Australia	(A$)	1.2276	-0.0092	274 - 282	1.2347	1.2267	1.2293	-1.5	1.2312	-1.1	1.2367	-0.7	87.8
Hong Kong	(HK$)	7.7320	-0.0002	315 - 325	7.7327	7.7313	7.7319	0.0	7.7325	0.0	7.7436	-0.1	-
India	(Rs)	35.7200	-0.002	850 - 550	35.7600	35.6700	35.985	-7.2	36.395	-7.6	-	-	-
Israel	(Shk)	3.2584	+0.0036	546 - 622	3.2636	3.2525	-	-	-	-	-	-	-
Japan	(Y)	113.800	+0.17	750 - 850	113.900	113.350	113.325	5.0	112.32	5.2	108.12	5.0	128.6
Malaysia	(M$)	2.5275	+0.0015	270 - 280	2.5280	2.5257	2.5303	-1.4	2.5357	-1.3	2.557	-1.2	-
New Zealand	(NZ$)	1.4050	-0.0053	043 - 057	1.4059	1.4040	1.4105	-4.7	1.4148	-2.8	1.4463	-2.9	-
Philippines	(Peso)	26.2860	+0.0085	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-0.0001	502 - 506	3.7507	3.7502	3.7506	-0.1	3.7511	-0.1	3.753	-0.1	-
Singapore	(S$)	1.4025	+0.0007	021 - 028	1.4028	1.4020	1.4003	1.6	1.3956	1.9	1.3745	2.0	-
South Africa	(R)	4.6085	+0.031	060 - 110	4.6150	4.5740	4.6492	-10.6	4.7242	-10.0	5.039	-9.3	-
South Korea	(Won)	828.950	+0.2	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Taiwan	(T$)	27.4885	-0.001	880 - 890	27.4910	27.4880	27.4886	0.0	27.4886	0.0	-	-	-
Thailand	(Bt)	25.5405	+0.0055	380 - 430	25.5470	25.5170	25.6305	-4.2	25.798	-4.0	26.4355	-3.5	-

† SDR rate per $ for Nov 27. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 27: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

November 29	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.20	-	4.75
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.20	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	7.50	8.05
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	7.50	8.05
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-

■ $ LIBOR FT London Interbank Fixing

Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar CDs	-	4.96	5.08	5.12	5.24
week ago	-	4.96	5.10	5.14	5.26
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 29	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.01	94.51	-	94.52	94.50	42,701	414,838
Mar	94.52	94.35	+0.04	94.38	94.32	94,694	391,130
Jun	94.44	93.76	-0.06	94.48	94.43	83,466	300,057

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.00	95.01	+0.02	95.01	95.00	477	2,166
Mar	95.04	95.06	+0.05	95.07	95.06	177	3,782
Jun	94.97	94.96	+0.05	94.97	94.96	15	1,926

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 29		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.59	16.49	4.853	1.877	4781	5.444	20.28	489.9	408.8	21.19	4.110	1.879	4.256	3.158	359.2	2.514
Denmark	(DKr)	53.79	10	8.868	2.610	1.009	2572	2.928	10.89	263.5	219.9	11.40	2.211	1.011	2.289	1.698	193.2	1.352
France	(FFr)	60.65	11.28	10	2.943	1.138	2900	3.302	12.28	297.2	247.9	12.85	2.493	1.139	2.581	1.914	217.9	1.525
Germany	(DM)	20.61	3.831	3.398	1	0.387	985.3	1.122	4.173	101.0	84.24	4.367	0.847	0.387	0.877	0.650	74.02	0.518
Ireland	(I£)	53.28	9.906	8.785	2.586	1	2548	2.901	10.79	261.1	217.8	11.29	2.190	1.001	2.267	1.682	191.4	1.339
Italy	(L)	2.092	0.389	0.345	0.101	0.039	100.	0.114	0.424	10.26	8.550	0.443	0.086	0.039	0.089	0.066	7.513	0.053
Netherlands	(Fl)	18.37	3.415	3.028	0.891	0.345	878.2	1	3.720	89.99	75.09	3.892	0.755	0.345	0.782	0.580	65.98	0.462
Norway	(NKr)	49.38	9.180	8.141	2.396	0.927	2351	2.688	10	241.9	201.9	10.46	2.030	0.928	2.101	1.558	177.4	1.241
Portugal	(Es)	20.41	3.794	3.365	0.990	0.383	975.8	1.111	4.133	100.	83.44	4.325	0.839	0.383	0.868	0.644	73.31	0.513
Spain	(Pta)	24.46	4.548	4.033	1.187	0.459	1170	1.332	4.954	119.9	100.	5.184	1.006	0.460	1.041	0.772	87.87	0.615
Sweden	(SKr)	47.19	8.773	7.780	2.290	0.886	2256	2.569	9.557	231.2	192.9	10	1.940	0.887	2.008	1.489	169.5	1.186
Switzerland	(SFr)	24.33	4.523	4.011	1.181	0.457	1163	1.324	4.927	119.2	99.45	5.155	1	0.457	1.035	0.768	87.38	0.612
UK	(£)	53.23	9.896	8.776	2.583	0.999	2546	2.898	10.78	260.8	217.6	11.28	2.186	1	2.265	1.680	191.2	1.338
Canada	(C$)	23.50	4.369	3.875	1.140	0.441	1124	1.279	4.759	115.1	96.07	4.980	0.966	0.442	1	0.742	84.42	0.591
US	($)	31.68	5.890	5.224	1.538	0.595	1515	1.725	6.417	155.2	129.5	6.714	1.302	0.595	1.348	1	113.8	0.796
Japan	(Y)	27.84	5.176	4.590	1.351	0.522	1331	1.516	5.638	136.4	113.8	5.900	1.144	0.523	1.185	0.879	100.	0.700
Ecu		39.78	7.396	6.559	1.930	0.747	1902	2.166	8.057	194.9	162.6	8.430	1.635	0.747	1.693	1.256	142.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10: Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	0.6532	0.6506	-0.0042	0.6535	0.6503	12,947	66,011
Mar	0.6557	0.6544	-0.0042	0.6560	0.6539	1,089	6,692
Jun	0.6590	0.6581	-0.0041	0.6590	0.6590	3	2,867

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	0.7729	0.7683	-0.0066	0.7739	0.7673	8,270	53,215
Mar	0.7807	0.7747	-0.0066	0.7807	0.7734	780	6,700
Jun	-	0.7811	-0.0066	-	0.7811	12	781

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	0.8818	0.8802	-0.0042	0.8835	0.8795	13,914	83,509
Mar	0.8920	0.8914	-0.0043	0.8947	0.8908	509	3,777
Jun	0.9040	0.9025	-0.0044	0.9040	0.9030	17	965

■ STERLING FUTURES (IMM) $62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	1.6786	1.6812	+0.0072	1.6840	1.6778	7,790	56,106
Mar	1.6748	1.6774	+0.0072	1.6800	1.6736	786	2,302
Jun	-	1.6722	+0.0072	1.6740	-	1	1,289

■ Pound in New York

Nov 29	—Close —	— Prev. close —
£ spot	1.6815	1.6785
1 mth	1.6807	1.6775
3 mth	1.6789	1.6749
1 yr	1.6620	1.6592

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
1.670	1.56	2.20	2.76	0.41	1.16	1.87
1.680	0.97	1.65	2.24	0.80	1.61	2.34
1.690	0.55	1.21	1.79	1.49	2.17	2.90

Previous day's vol., Calls 52 Puts 200 . Prev. day's open int., Calls 31,209 Puts 87,032

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
0.650	0.37	0.65	0.89	0.29	0.50	0.69
0.655	0.17	0.44	0.74	0.56	0.77	0.95
0.660	0.06	0.29	0.53	0.96	1.11	1.26

Previous day's vol., Calls 402 Puts 433 . Prev. day's open int., Calls 32,263 Puts 27,075

BANK RETURN

BANKING DEPARTMENT	Wednesday November 27, 1996	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,035,101,297	+150,218,306
Bankers deposits	1,946,043,846	-199,033,605
Reserve and other accounts	3,428,605,080	+351,273,327
	6,424,303,223	+302,458,028
Assets		
Government securities	1,300,098,780	-160,130,000
Advance and other accounts	1,516,668,997	+290,182,266
Premise, equipment and other secs	3,594,462,509	+175,766,105
Notes	7,944,617	-3,358,098
Coin	138,320	-2,246
	6,424,303,223	+302,458,028
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	21,072,055,383	+193,358,098
Notes in Banking Department	7,944,617	-3,358,098
	21,080,000,000	+190,000,000
Assets		
Other Government securities	14,271,041,942	+261,683,234
Other Securities	6,808,958,058	-71,683,234
	21,080,000,000	+190,000,000

UK INTEREST RATES

LONDON MONEY RATES

Nov 29	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅛ - 5	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6⅛ - 5$\frac{31}{32}$	6$\frac{7}{32}$ - 6⅛	6⅜ - 6½	6$\frac{11}{16}$ - 6$\frac{11}{16}$
Sterling CDs	-	-	6$\frac{1}{16}$ - 6	6$\frac{5}{32}$ - 6¼	6$\frac{13}{32}$ - 6$\frac{13}{32}$	6$\frac{21}{32}$ - 6$\frac{21}{32}$
Treasury Bills	-	-	5$\frac{31}{32}$ - 5⅞	6$\frac{1}{32}$ - 6$\frac{1}{32}$	-	-
Bank Bills	-	-	5$\frac{31}{32}$ - 5⅞	6⅛ - 6⅛	6$\frac{7}{16}$ - 6⅜	-
Local authority deps.	6⅛ - 6	6 - 5¾	6$\frac{1}{16}$ - 6	6⅛ - 6$\frac{1}{16}$	6$\frac{5}{16}$ - 6$\frac{3}{16}$	6$\frac{5}{8}$ - 6$\frac{7}{16}$
Discount Market deps	6⅛ - 5⅝	5⅞ - 5¾	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Nov 29, 6.1328pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 29, 1996. Agreed rate for period Dec 26, 1996 to Jan 25, 1997, Scheme III 7.61pc. Reference rate for period Nov 1, 1996 to Nov 29, 1996, Schemes IV & V 6.373pc. Finance House Base Rate 6pc from Nov 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

	Nov 29	Nov 22		Nov 29	Nov 22
Bills on offer	£200m	£200m	Top accepted rate	6.1368%	6.1569%
Total of applications	£561m	£374m	Ave. rate of discount	6.1328%	6.1355%
Total allocated	£200m	£200m	Average yield	6.2280%	6.2308%
Min. accepted bid	£98.470	£98.466	Offer at next tender	£200m	£200m
Allotment at min. level	86%	82%	Min. accept. bid 93 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	●Rea Brothers	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	6.00
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Singer & Friedlander	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	●Smith & Williamson Secs	7.00
Banco Bilbao Vizcaya	6.00	Girobank	5.75	Scottish Widows Bank	6.00
Bank of Cyprus	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Ireland	5.75	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of India	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	6.00
Bank of Scotland	6.00	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Barclays Bank	6.00	●Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Brit Bk of Mid East	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
●Brown Shipley & Co Ltd	6.00	Hongkong & Shanghai	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00	● Members of London Investment Banking Association	
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00		
The Co-operative Bank	6.00	Lloyds Bank	6.00		
Coutts & Co	6.00	Midland Bank	6.00	* In administration	
Credit Lyonnais	6.00	*Mount Credit Corp	6.25		

FT GOLD MINES INDEX

	Nov 29	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (32)	1872.25	-2.2	60.84	100.00	1.64	-	[illegible]	[illegible]
■ Regional Indices								
Africa (14)	2213.37	-11.6	12.22	24.12	3.51	31.48	3553.86	2213.37
Australasia (6)	2169.56	-9.4	5.91	11.67	2.85	21.02	2927.34	2005.75
North America (12)	1738.98	+3.2	32.82	64.21	0.75	65.61	2186.39	1648.45

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LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
90	F.P.	14.4	107½	100½	†Access Plus	102½xd		b22.40	-	3.0	13.5
§70	F.P.	18.3	78½	72½	Advanced Power	78½	+3½	-	-	-	-
§3	F.P.	7.56	4¼	4	†Beachcroft	4		-	-	-	13.2
§167	F.P.	41.6	194½	170½	Brands Hatch	190½		W3.5	1.9	2.3	19.2
§130	F.P.	38.8	162½	130	Brit Allcroft	158½	-1	L1.5	3.0	1.3	27.7
§136	F.P.	80.8	183½	152½	Car Group	182½		W3.8	2.6	3.0	15.8
-	F.P.	6.50	6½	5¼	†Charterises Comms	6½	+½	W-	-	-	14.5
§115	F.P.	4.27	122½	120½	†Dawn Til Dusk	121½		-	-	-	10.3
160	F.P.	10.2	164½	156½	†Deep Sea Leisure	162½		-	-	-	-
§275	F.P.	71.5	312½	272½	Druid Grp	312½	+18	-	-	-	34.0
§92	F.P.	9.26	97½	97½	Exeter Inv	97½		W3.5	1.6	4.5	17.4
§	F.P.	31.1	610	590	First Russian C	587½	-2½	-	-	-	-
115	F.P.	14.0	130½	122½	†Future Int Tele	126½		-	-	-	-
100	F.P.	87.6	113½	81½	†Geo Inter Med	87½		-	-	-	-
§110	F.P.	39.1	115½	114½	†Goshawk Insce	115½		-	-	-	-
*	F.P.	85.6	133	117½	Grantchester	124	+6	-	-	-	-
§50	F.P.	6.81	52½	47½	†Kern River	50½		-	-	-	-
§160	F.P.	28.9	228½	187½	†Majestic Wines	226½	+1	-	-	-	13.2
§135	F.P.	28.4	142½	132½	Oliver Ashworth	135½		F4.5	1.9	4.2	12.0
125	F.P.	21.7	135½	124½	Provend	126½	-2	RW3.6	2.4	3.6	12.6
§90	F.P.	16.2	100½	94½	†Recycling Servs	100	+1½	W3.2	-	4.0	-
§125	F.P.	33.7	139½	130½	Scot Highland Ht	136½		R8.0	2.4	2.7	13.6
§	F.P.	8.08	110½	110½	Second St David	110½		-	-	-	-
§	F.P.	1.02	10½	9½	Do Residual Cap	9½		-	-	-	-
§	F.P.	10.9	184¼	183	Do Zero Div Prf	184¼	+¼	-	-	-	-
3	F.P.	26.8	3¼	3¼	†Snakeboard	3¼		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996 High	Low	Stock	Closing price p	+or-
134	Nil	2/12	12½pm	7pm	AG Holdings	10½pm	
45	Nil	31/12	2pm	1¼pm	Arcadian Intl	1¼pm	-¼
600	Nil	17/12	139½pm	101pm	Bodycote Intl	107½pm	+1½
220	Nil	18/12	46½pm	46pm	INVESCO Units	44pm	+1½
600	Nil	6/1	24pm	17½pm	Mow Group	26pm	+6½
50	Nil	6/1	[illegible]	[illegible]	Regalian	[illegible]	
62	Nil	2/1	10pm	6½pm	Siebe	7½pm	
235	Nil	10/12	69½pm	62½pm	Vision	63½pm	

pm premium.

UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts (Lives up to Five Years)							
Treas 13¼pc 1997‡‡		101	-.1	1,290	Jy22 Ja22	11.7	1302
Exch 10½pc 1997		100⅜	—	3,709	Au21 Fe21	12.8	1253
Treas Cnv 7pc 1997‡‡		100⅛	—	1,988	Fe6 Au6	26.7	4491
Treas 8¾pc 1997‡‡		101⅝	—	5,550	Mr1 Se1	21.8	1341
Exch 15pc 1997		107⅞	—	830	Oc27 Oc27	17.10	1269
Exch 9¾pc 1998		103⅞	0.1	3,550	Jy19 Ja19	18.7	1273
Treas 7¼pc 1998‡‡		100⅜	0.1	6,150	Se30 Mr30	19.9	1788
Treas 7¾pc 2006‡‡		102⅛	0.8	3,900	Mr8 Se8	2.9	2309
Treas 8pc 2002-6‡‡		103⅛	0.3	2,050	Ap5 Oc5	28.9	1334
Treas 11¾pc 2003-7		122⅛	0.6	3,150	Jy22 Ja22	11.7	1283
Treas 8½pc 2007‡‡		108	0.7	7,397	Ja16 Jy16	5.7	1339
Treas 9pc 2008‡‡		112⅛	0.8	5,621	Ap13 Oc13	3.10	1343
Treas 8pc 2009		104⅛	0.6	3,450	Mr25 Se25	16.8	1336
Index-Linked	(b)						
4⅝pc '98‡‡	(135.6)	113⅞	0.1	800	Ap27 Oc27	17.10	1753
2½pc '01	(78.3)	185⅞	0.2	2,150	Mr24 Se24	16.9	1316
2½pc '03	(78.8)	181⅞	0.4	2,158	My20 Nv20	11.11	1317
4⅜pc '04‡‡	(135.6)	118⅞	0.3	1,150	Ap21 Oc21	10.10	1255
2pc '06	(69.5)	192⅛	0.6	2,250	Ja19 Jy19	10.7	1314
2½pc '09	(78.8)	173⅛	0.6	2,400	My20 Nv20	11.11	1318
2½pc '11	(74.6)	179⅛	0.7	2,860	Fe23 Au23	14.8	1319
[illegible]							

Other Fixed Interest

[illegible]

STOCK INDICES

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PAPER, PACKAGING & PRINTING - Cont.

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, FOOD - Cont.

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♦ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♢ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1996. K Dividend based on prospectus or other official estimates for 1995. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service. **Additions: Oriental Rest (Brew), Australian Opps 3 1/2pc '07 (IvTs), Lanica (IvCo), Minerva (Prop), Beaufort, Jardinerie Intrs and Loftus Road (AIM). Deletion: HCG Lloyds (Insc), Tyndall Austalain Opts(OtFn).**

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

QUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

JERSEY (REGULATED)(**)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

Offshore Funds and Insurances

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (x)

Abtrust Fund Mngrs Luxembourg SA (a)

Aetna Master Fund (a) (x)

Fidelity Funds - Contd.

Fleming Group (a)

Mercury Asset Management S.A. - Contd.

Midland Intl Circuit Fund SICAV(q)

Aetna International Umbrella Fund - Contd.

Credis Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

Southern International SICAV

State Street Luxembourg SA

CMI Ins Co Ltd/Clerical Med Gen Life

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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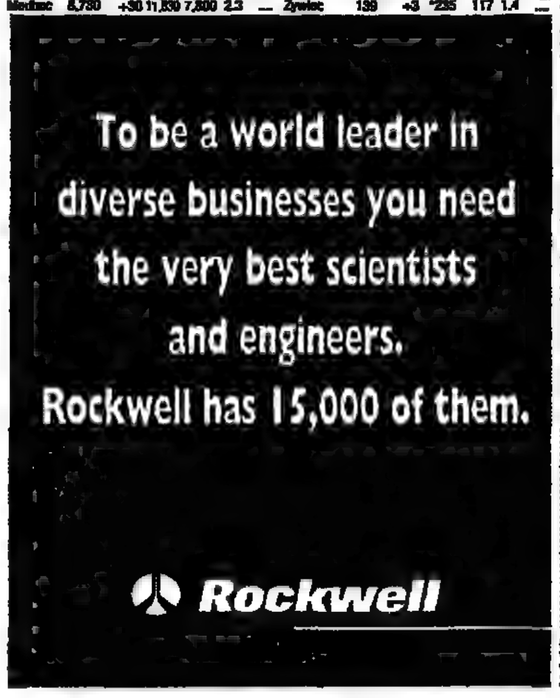
OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE



PACIFIC

AFRICA

NORTH AMERICA

INDICES

US INDICES

Industrials¥	886.63	884.49	885.86	886.90 (25/11)	702.07 (15/1)	886.90 (25/11/96)	3.52 (30/6/32)
Financial	84.93	84.56	84.44	84.93 (29/11)	58.67 (10/1)	84.93 (29/11/96)	7.13 (4/9/74)
NYSE Comp.	398.43	397.48	397.96	398.86 (25/11)	321.41 (18/1)	398.86 (25/11/96)	4.64 (25/4/42)
Amex Mkt Val	591.48	588.64	588.33	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1292.61	1287.32	1281.20	1292.61 (29/11)	988.57 (15/7)	1292.61 (29/11/96)	54.87 (3/10/74)

RATIOS

	Nov 22	Nov 15	Nov 8	Year ago
Dow Jones Ind. Div. Yield	2.02	2.06	2.09	[illegible]
	Nov 27	Nov 20	Nov 13	Year ago
S & P Ind. Div. yield	1.81	1.84	1.87	2.00
S & P Ind. P/E ratio	23.30	22.99	22.64	18.64

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Unisys	5,800,300	7⅝	+1⅛
Pepsico	2,481,300	29½	-¼
Barrick Gld	2,257,800	30	+½
AT & T	2,168,500	39¼	+½
Micron Tech	1,981,500	33⅛	-⅛
EMC	1,291,400	32¼	+2⅛
[illegible]	1,276,900	103½	-¼
Texas Inst	1,158,500	63¼	
McD Doug	1,133,400	52½	+⅛
Tnzec	1,062,600	20⅝	+½

TRADING ACTIVITY

● Volume (million)	Nov 29	Nov 27	Nov 26
New York SE	151.372	381.590	538.501
Amex	11.022	21.446	27.006
NASDAQ	(a)	504.911	641.150
NYSE			
Issues Traded	3,154	3,325	3,328
Rises	1,205	1,343	1,143
Falls	934	1,116	1,355
Unchanged	915	846	830
New Highs	132	169	286
New Lows	10	25	33

S&P 500

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	755.90	758.25	-2.30	760.70	755.60	52,509	186,292
Mar	765.00	765.30	-2.25	767.75	764.70	4,987	31,449

Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	21030.0	21100.0	-20.0	21190.0	21020.0	18,492	202,125
Mar	21060.0	21160.0	-40.0	21220.0	21060.0	15,453	100,011

Open interest figures for previous day

● Excluding bonds. ‡ Industrial, plus Utilities, Finance and Transportation. ¥ Subject to official recalculation.

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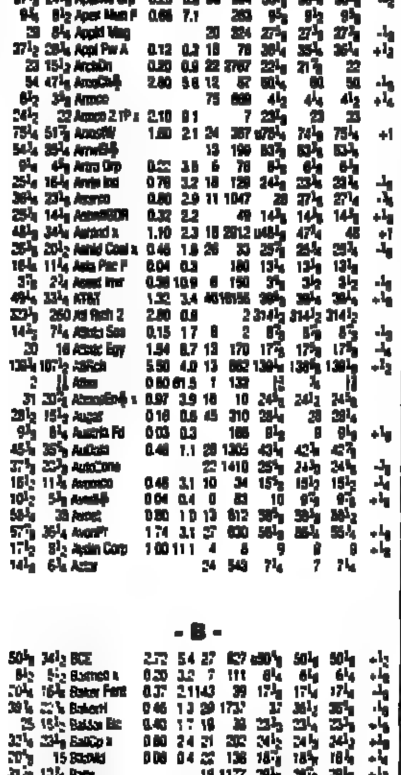
TOKYO - MOST ACTIVE STOCKS: Friday, November 29, 1996

	Stocks Traded	Closing Prices	Change on day
Honda Motor	5.1m	3360	
Hitachi	4.6m	1060	+10
Tokyo Gas	4.5m	336	+3
Keisei Elect Ry	4.0m	961	-30
Mitsubishi Hvy	3.8m	930	-5
Nippon Steel Cp	3.6m	344	-1
Kobe Steel	3.2m	265	-3
Toray Inds	3.2m	734	-1
Toyota Motor	2.7m	3110	-10
Mitsubish. Elec	2.7m	655	-11

NEW YORK STOCK EXCHANGE PRICES

1pm close Nov 29

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
31¼	17¾	AAR	0.48	1.6	27	21	30	29¾	29⅞	+⅛
46⅛	33	AMP	1.00	2.6	19	1949	38½	38¼	38¼	
97½	69	AMR			16	1286	91¾	89⅞	91¼	+1½
50½	37⅛	ASA	1.40	3.7	24	231	37¾	37½	37⅝	-¼
57⅞	39¼	AbbtL	0.96	1.7	23	2370	56	55⅛	55⅛	
17¼	12¼	AbbtBt Pr x	0.40	2.7	7	285	14⅞	14¾	14¾	-⅛
20¼	13½	ABM Ind	0.35	2.0	17	40	17¾	17½	17½	+⅛
22½	18⅞	Acptncaln			10	4	20½	20½	20½	
60	37¾	ACE Ltd	0.58	1.0	14	105	57⅞	57⅜	57⅞	+½
10⅜	9⅜	ACM Gvt In	0.90	8.8	8	68	u10¾	10¼	10¼	-⅛
7⅞	6⅞	ACM GvOpp	0.57	7.9		133	7¼	7¼	7¼	
9⅞	8⅞	ACM Man	0.90	9.2		38	9¾	9¾	9¾	+⅛
13⅞	6½	Acme Elect	0.32	4.4	55	103	7¼	7⅛	7¼	+⅛
20¾	13⅞	Acme Mtls			15	99	u20¾	20⅜	20¾	+⅜
33⅜	27¼	Acordia	0.80	2.7	15	13	29¾	29¼	29¼	-⅛
24⅜	12	Acuson			108	667	22⅞	21⅞	22⅞	+1
21¼	17⅞	Adams Expr x	0.55	2.8	1	119	19⅞	19⅜	19⅞	+⅛
25¾	10¼	AdvMic			25	1849	24½	24⅛	24¼	-⅛
11⅞	8½	Advest Grp	0.16	1.5	7	136	10½	10⅛	10½	-⅛
26⅛	9⅛	Advo Inc	0.10	0.8	97	25	12¾	12½	12⅝	
56⅝	41¼	Aegon	1.45	2.6	17	63	u56⅝	56⅛	56¼	+⅜
6¾	3½	AerGx			9	79	4½	4⅛	4½	+¼
72⅞	57⅝	Aetna	0.80	1.1	9	2599	u72⅞	72⅛	72⅛	-¼
44	29¼	Aflac	0.40	1.0	17	1767	42⅝	41¾	41¾	-¾
22	17⅛	AGL Res			15	292	21½	21⅛	21⅛	-⅛
33⅞	21¼	Ahmnsn	0.88	2.7	58	580	33	32⅝	33	+⅛
70	50⅜	AirPrC	1.10	1.6	18	309	u70	69½	69½	-⅜
28⅜	18½	Airbne Frt	0.30	1.4	18	194	21⅝	21⅜	21½	+⅛
27⅛	15½	Airgas Inc			40	227	26	25¾	25¾	-⅛
18⅞	13¾	Airtouch	1.80	11.5	10	16	15⅞	15⅝	15⅝	-⅛
[illegible]										



Continued on next page

NYSE PRICES

4pm close Nov 29

Continued from previous page

[illegible]

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
[illegible]
† Dealings suspended.

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NASDAQ NATIONAL MARKET

4pm close Nov 29

[illegible]

AMEX PRICES

4pm close Nov 29

[illegible]

FT GUIDE TO THE WEEK

MONDAY 2

Talks on a secure Europe

Heads of government from 54 states in Europe, North America and the former Soviet Union gather in Lisbon to discuss Europe's future security system. Russia is keen to boost the role of the Organisation for Security and Co-operation in Europe as a counterweight to the expansion of Nato. Several ex-Soviet republics will try to use the meeting to reassert their independence from Russia and seek help with the resolution of conflicts. The meeting will also consider whether to admit rump Yugoslavia – Serbia and Montenegro – to the OSCE.

Saleroom

London's main winter auctions of Impressionist, Modern and Contemporary art take place this week. The highlight at Christie's tonight is a pastel by Degas, "Danseuses vertes", which carries a top estimate of £3.5m ($5.84m). Sotheby's most important painting on Tuesday is a portrait by Renoir. In its art sale on Wednesday, Christie's is offering one of Francis Bacon's Pope paintings. It should bring up to £1.5m.

Copyright on Internet

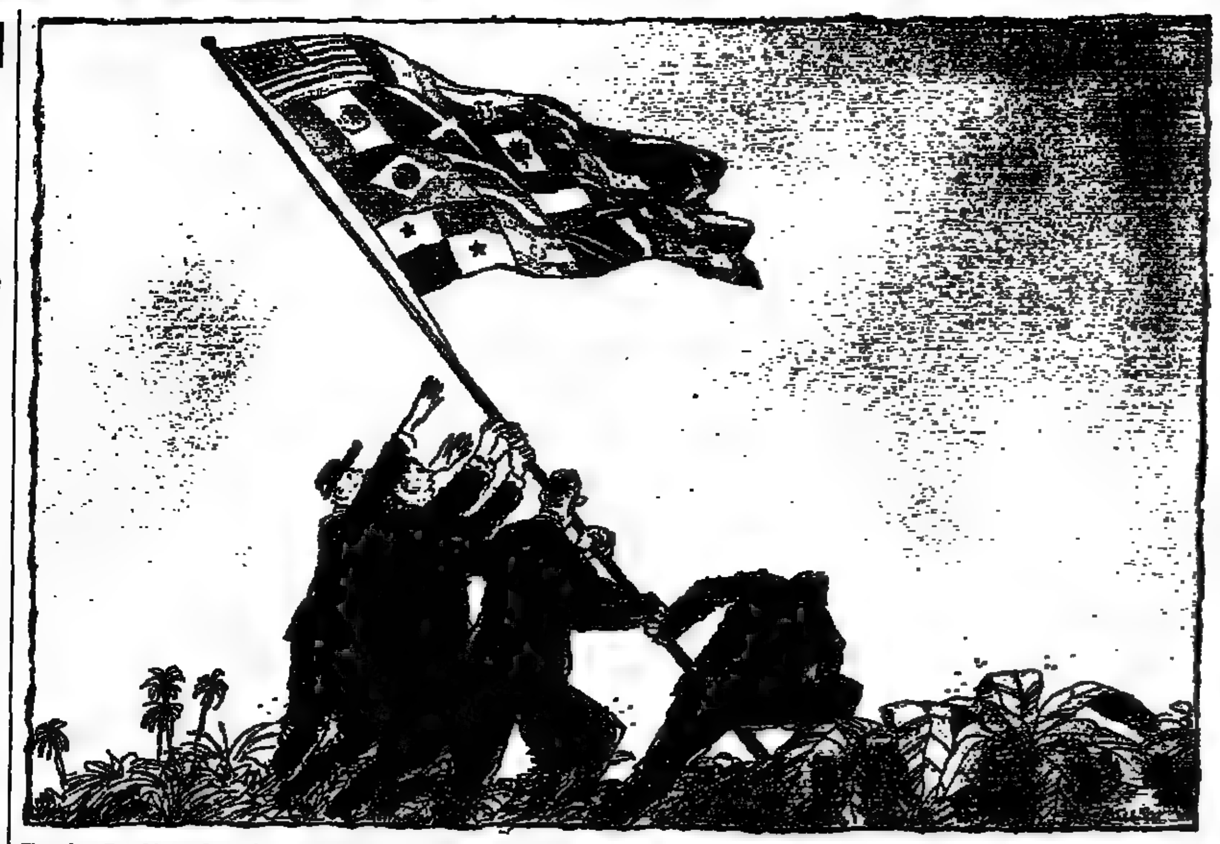
Member states of the World Intellectual Property Organisation meet in Geneva (to Dec 20) to approve three treaties extending protection of intellectual property rights. The treaties cover copyright material on the Internet, the rights of performers and record producers, and the protection of databases. The "Internet" pact would ensure for the first time that international copyright law applies when books, films, music, software and other protected works are published electronically. It would also ban the use of devices designed to circumvent systems intended to protect the rights of copyright holders.

UN tracks stolen cars

A two-day conference on illicit trafficking in stolen vehicles starts in Warsaw. The UN, concerned at the growing number of car thefts, has organised the conference. Poland is a big transit route for cars stolen in western Europe for clients in the former Soviet Union. Officials from the 40 countries in Warsaw will go to Moscow in 1997 for further talks.

EU discusses budget pact

EU finance ministers meet in Brussels to try to narrow differences over German-backed proposals for a budget stability pact for countries taking part in the planned single currency zone. Germany is demanding firm rules on sanctions against fiscally delinquent countries, but the Irish presidency is trying to bridge the gap in time for next week's EU summit in Dublin.



Flag day: Presidents from the Americas and the Caribbean will attend a summit on reducing poverty and protecting the environment.

Mastering Enterprise

The 12-part Mastering Enterprise series on entrepreneurship continues in the Financial Times, with part three. The series covers every stage from starting a company to building and sustaining entrepreneurial attitudes in large organisations and in the public sector. (UK and continental editions only; telephone 0171 538 1164 or fax 0171 537 3594. The price is£4 per copy or £30 for the series.)

Beijing focus on imports

China and the US hold talks in Beijing in an effort to solve their dispute over textile import penalities. Unless it is solved, China will start to ban some US imports in retaliation from December 10. The US set $19m (£11.3m) penalties on imports of Chinese textiles in September, saying Beijing was shipping textiles through third countries to avoid quota restrictions.

FT Survey

World Nuclear Industry.

Holidays

Chad, Cuba, New Zealand (Chathams, Westland), Romania, UAE.

TUESDAY 3

Energy council in Brussels

EU energy ministers meet in Brussels for their first discussion on new proposals to open up the EU's national gas markets to cross-border competition. They agreed in the summer to open part of the electricity market to competition. Discussions are likely to centre on the extent to which the market should be liberalised, how competitors should be allowed to gain access to networks, the extent of public service obligations on gas companies and what to do about gas companies with long-term, fixed-price, supply contracts if prices start to fall.

Tennis

Grand Slam Cup, Munich, Germany (to Dec 8).

FT Surveys

International Project Finance; FT Review of Business Books (UK only).

Holidays

Ghana, UAE.

WEDNESDAY 4

The next stage for Bosnia

Representatives from more than 50 countries and international organisations will meet in London to discuss a two-year peace consolidation plan for Bosnia. The conference will consider how best to pursue some key principles – freedom of movement within Bosnia, the right of refugees to go home and the prosecution of war criminals – enshrined in the Dayton peace accord but poorly implemented.

Vote on firearms ban

The UK government's firearms bill enters its remaining stages in the Commons, the lower house of parliament. The supporters of gun sports will criticise what they see as the inadequacy of compensation for owners of outlawed handguns – those bigger than .22 calibre.

FT Surveys

FT Review of Information Technology; FT Guide to Doing Business On-Line (Europe only).

Holidays

Tonga.

THURSDAY 5

Geneva Man unites Swiss

Geneva announces the commercial launch of its information superhighway, following the success of a pilot project linking the main international organisations based in the Swiss city. The network, dubbed Geneva Man (Metropolitan Area Network), is able to carry multimedia traffic at very high speeds. It is already being used by Cern, the European particle physics laboratory, the International Telecommunication Union, the World Health Organisation and Geneva university.

Bolivia holds auction

The Bolivian government is auctioning half of its holding in YPFB, the state-owned oil and gas company. Privatisation of the company has been postponed several times because of worker and political opposition and the need for new legislation. The government plans to use the proceeds to provide old age pensions.

FT Surveys

Business in the Community (UK only); Japanese Industry; Thailand.

Holidays

Haiti, Thailand.

FRIDAY 6

Trade unions seek rights

The International Confederation of Free Trade Unions is holding a conference in Singapore until December 8. It will argue that freedom of association and of collective bargaining, the abolition of child and slave labour as well as an end to workplace discrimination on grounds of sex and gender should be linked to international trade agreements. At the same time, world trade union leaders will push for core worker rights to be discussed at the meeting. They insist they want open trade but are worried that human rights in the workplace are threatened by increasing globalisation.

Foreign ministers meet

EU foreign ministers meet to prepare the ground for next week's Dublin summit. The Irish presidency is expected to produce a draft treaty text covering the revision of the Maastricht treaty for discussion at a "conclave" of foreign ministers tomorrow.

Talks on market access

Ministers from Japan and the US meet in Tokyo to discuss access to Japan's insurance market. This meeting is a last-ditch attempt to resolve the biggest outstanding trade dispute between the two countries before a self-imposed deadline of December 15.

FT Surveys

Czech Republic; Turkey: Finance and Investment.

Holidays

Ecuador, Finland, Ghana, Israel, Ivory Coast, Neth Antilles, Spain.

SATURDAY 7

Americas get together

Up to 34 presidents and their representatives from both Americas and the Caribbean meet for two days in Santa Cruz, Bolivia, for a "hemispheric summit on sustainable development". They will look at reducing poverty and protecting the environment.

Ghana chooses president

Presidential and parliamentary elections take place in Ghana. Analysts predict a second and, under the constitution, final term as president for Jerry Rawlings and a first opposed win in parliament for his ruling coalition. Western aid backing for structural adjustment reforms during his military regime helped Rawlings win popular support in Ghana's first multi-party polls in 1992. A pre-election spending spree derailed the reforms. Popular protest against new taxes and anger over continuing poverty was violently suppressed in Accra last year. Since then, the opposition has been too weak and divided to exploit the government's unpopularity.

Rift overshadows summit

Import tariffs and a common defence policy will be discussed at the annual summit of the Gulf Co-operation Council which will take place in Doha, Qatar, in a strained atmosphere (to Dec 9). Bahrain is refusing to attend because of a territorial dispute with Qatar. Both countries lay claim to a group of islands controlled by Bahrain. Qatar is appealing to the International Court of Justice in the Hague and will only drop its case if a third GCC member, Saudi Arabia, can bring about a solution.

FT Survey

FT Guide to Tax-Efficient Savings (UK only).

Holidays

Armenia, Austria, Cuba, Malta, Italy, Ivory Coast, Nicaragua.

SUNDAY 8

Chess champions meet

Las Palmas stages the first chess game since February 1994 between rival world champions Garry Kasparov and Anatoly Karpov (to Dec 21). Grandmasters from Russia, Ukraine, India and Bulgaria are also competing in the highest-rated tournament in chess history.

Athletics

Fukuoka marathon, Japan.

Holidays

Chile, Costa Rica, Nicaragua, Panama.

Compiled by Caroline Fossey
Fax: (+44) (0)171 873 3194

ECONOMIC DIARY

Other economic news

Monday: The narrow measure of UK money supply is forecast to have grown strongly again last month. The UK purchasing managers' survey should provide evidence of further improvement in manufacturing industry. European Finance ministers meet in Brussels, where the proposed stability pact is expected to be discussed.

Tuesday: The first UK budget hearings take place in the House of Commons. Italian consumer price inflation is expected to have declined in November.

Wednesday: German gross domestic product is expected to have grown more strongly in the third quarter than in the second quarter.

Thursday: The Confederation of British Industry distributive trades survey is expected to show further buoyancy in retail spending. The Bundesbank is scheduled to meet but no change in interest rates is expected.

Friday: US non-farm payroll numbers are expected to show a steady rise in employment. UK manufacturing output is forecast to have grown more strongly in October.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	A'tralia	Oct retail trade	2.0%	-3.7%
Dec 2	A'tralia	Oct building approvals	4.0%	-8.6%
	Japan	Nov auto sales**		8.4%
	Japan	Nov forex reserves*		0.6%
	France	Oct unemployment rate	12.6%	12.6%
	UK	Nov M0*	0.8%	0.7%
	UK	Nov M0**	7.2%	7.5%
	UK	Nov Chart Ins of Purchasing Mngrs		54.5%
	US	Oct leading indicators	unch	0.1%
	US	Nov Nat Assoc of Purchasing Mngrs	50.5%	50.2%
	US	Oct construction spending	-0.5%	1.8%
	US	Nov domestic auto sales	6.8m	6.5m
Tues	US	Oct new home sales	775k	818k
Dec 3	Denmark	Nov forex reserves		Dkr88.7bn
	Arg'tina	Nov intl reserves	$18.7bn	$18.4bn
Wed	Germany	Q3 gross domestic product pan-Germ**	0.8%	1.5%
Dec 4	Germany	Q3 gross domestic product pan-Germ***	1.7%	1.1%
	Germany	Q3 gross domestic product west**	0.8%	1.1%
	Germany	Q3 gross domestic product west***	1.8%	1.0%
	Canada	Oct building permits*		-3.4%
	US	Oct home completions		1.36m
	Japan	Nov trade balance (1st 20 days) nott		Y317bn
Thu	Italy	Nov consumer price index*	0.3%	0.1%
Dec 5	Italy	Nov consumer price index**	2.6%	3.0%
	Germany	Nov unemployment pan-Germany†	25k	41k

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
	Germany	Nov short time west nott		90k
	Canada	Nov help wanted index†		88
	Ireland	Oct credit data	13.5%	13.3%
Fri	N'lands	Nov consumer price index*	-0.1%	0.3%
Dec 6	N'lands	Nov consumer price index**	2.4%	2.4%
	UK	Oct industrial production*	0.5%	0.5%
	UK	Oct industrial production**	1.7%	0.9%
	UK	Oct manufacturing output*	0.4%	0.4%
	UK	Oct manufacturing output**	0.4%	0.2%
	US	Nov non-farm payrolls	175k	210k
	US	Nov manufacturing payrolls	unch	8k
	US	Nov hourly earnings	0.3%	unch
	US	Nov average work week		34.3
	US	Nov unemployment rate	5.2%	5.2%
Sun	Japan	Nov overall wholesale price index*		0.1%
Dec 8	Japan	Nov overall wholesale price index**		0.3%
	Japan	Nov domestic wholesale price index**		-0.7%
During the week...				
	Germany	Oct manufacturing output pan-Germ*	0.7%	-2.2%
	Germany	Sep trade balance	DM8.8bn	DM8.1bn
	Germany	Sep current account	-DM2.3bn	-DM4.6bn
	Belgium	Nov unemployment		13.8%
	Sw'tzlnd	Nov unemployment	5.0%	4.8%
	Brazil	Nov exports		$4.19bn

*month on month, **year on year, ***qtr on qtr, †seasonally adjusted. Statistics, courtesy MMS International.

MONDAY PRIZE CROSSWORD

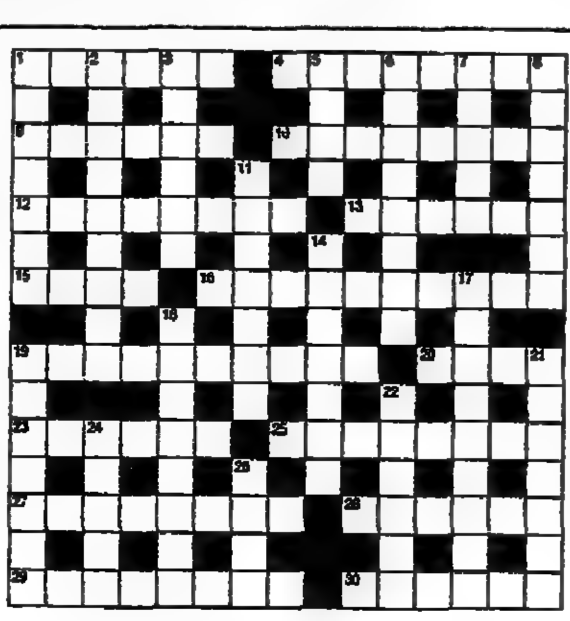
No.9,240 Set by DANTE

ACROSS

1 Unfinished plans of rowdies (6)
4 Cancel verbally and immediately (5,3)
9 Global outbreak of herpes (6)
10 Swiss resistance story for a private reporter (4-4)
12 It's no advantage to retire (5)
13 Paper required – the first edition (6)
15 The boy's in a whirl (4)
16 Likely place to find pips (2,3,5)
19 Having started the race is wide of target (3,3,4)
20 It's impossible to connect with these services (4)
23 Now the aim of boys wanting to take out girls (2,4)
25 Flat delivery on an even pitch (8)
27 The plane might be a Jumbo (8)
28 Picture producer (6)
29 Inexactitude about measure of growth (4,4)
30 Accounts book with margin going from left to right (6)

DOWN

1 Balance to settle around mid-January (7)
2 Not recognised, having no precedent (7-2)
3 By means of joining present and past (6)
5 Scheme that is little short of perfect (4)
6 Steal a little distance? (4-4)
7 Not rounds used in an erratic salvo (5)
8 Tentative suggestions put out by some animals? (7)
11 Possibly saving firm in money difficulty (7)
14 Old Egyptian gambling game, it's said (7)
17 Considering retribution (9)
18 Impediment admitted by spiteful female gossip (8)
19 Porridge for a stable diet (7)
21 Wrestle with a translation and perspire (7)
22 Rewrote a score that's uneven (6)
24 Fancy woman upset, is under the doctor (5)
26 Keen about being capped (4)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday December 12, marked Monday Crossword 9,240 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday December 16. Please allow 28 days for delivery of prizes.

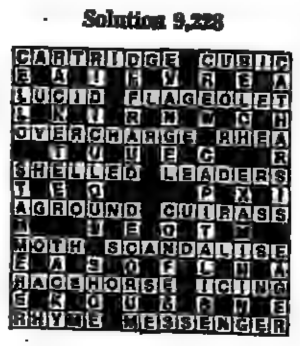
Name ____________

Address ____________

Winners 9,240

Dr & Mrs K.M. George, Shirley, Croydon
J.R. Adamson, Rayleigh, Essex
Mrs E. Berry, Brussels, Belgium
H. Hollingsworth, Hitchin, Herts
Ms J.C. Williams, London W9
D. Yeo, Plympton, Plymouth

Solution 9,228



JOTTER PAD

Market: The average number of people per square mile in the UK (Spread 20 people)
Friday's answer: 247 miles

Industry diversifies beyond oil dependency

This aluminium plant is just one example of the diversification of the UAE economy

Oil has been the great engine of the economy since exports began thirty years ago, and remains so. The country has proven oil reserves of some 100 billion barrels, equivalent to almost 10 per cent of the world total. They are sufficient to last for a century at current production levels. The major energy emphasis over the next few years will be on the development of the very large gas reserves, and the use of production from these fields as feedstock for new petrochemicals plants. Exports of liquified natural gas are expected to increase.

Industrial diversification, however, and the development of services like banking and tourism, are key to the drive to lessen the dependence on oil. Communications are excellent. Phones, fixed or mobile, are ubiquitous; access to the Internet, e-mail, teleconferencing, virtual private networks and all the other manifestations of the telecoms revolution have arrived. The long coastline has 15 ports, two of them on the Indian Ocean in Fujairah. The port at Jebel Ali in Dubai, the largest man-made deepwater harbour in the world, has a monster 67 berths on its miles of quays. Road links north to Qatar, and to Saudi Arabia, are good; the possibility of a rail network to link the Emirates to its neighbours has been mooted. The six international airports – Dubai ranks in the world's top 10 – support a large sea-air cargo transfer business.

Construction helped to double non-oil earnings in the first half of the decade, with the value of commercial building in Abu Dhabi alone last year put at $3.1 billion. An Italian marble and construction company has won a $408 million contract to build the world's fourth largest mosque in the city. The Dubai Aluminium Company, for example, is increasing its capacity by half, taking advantage of low energy to produce the metal at well below average cost.

Cheap gas, and bauxite shipped in from India to efficient ports, make a powerful combination and smelters may follow in other Emirates. Substantial investment has helped boost manufacturing in aluminium, food, beverages and tobacco, and textiles, as well as chemicals and plastics and other downstream petroleum products.

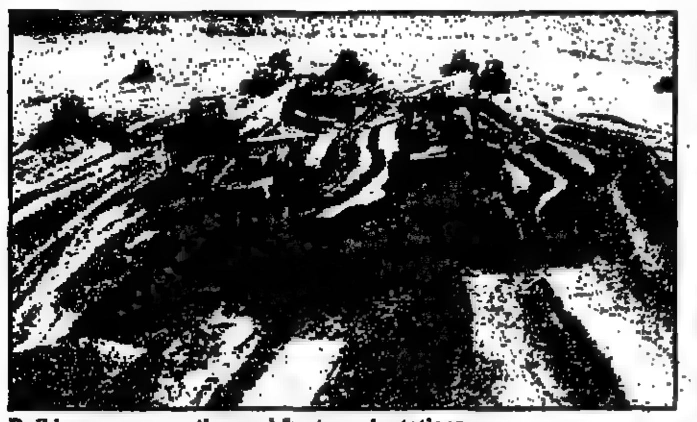
Much of this is based in the important free-trade zones. The one at Jebel Ali, outside Dubai, is now fifth in the world rankings. Once scrubland and sea, a thousand companies have been attracted to it by a plethora of fiscal incentives. These include 15 year exemptions from personal and corporate taxes, 100 per cent repatriation of capital and profits and access via its strategically-placed port to the Indian subcontinent, a market of a billion people, as well as the Middle East region. Companies operating from the zone include big multinationals like General Motors, Aiwa, BP and Heinz.

At the new Dubai airport free zone, a prestige client has been won in the aircraft maker Boeing, which will operate a regional centre for spare parts and maintenance support. It is well positioned for servicing markets in East Africa and in the former Soviet republics of central Asia as well as the closer region.

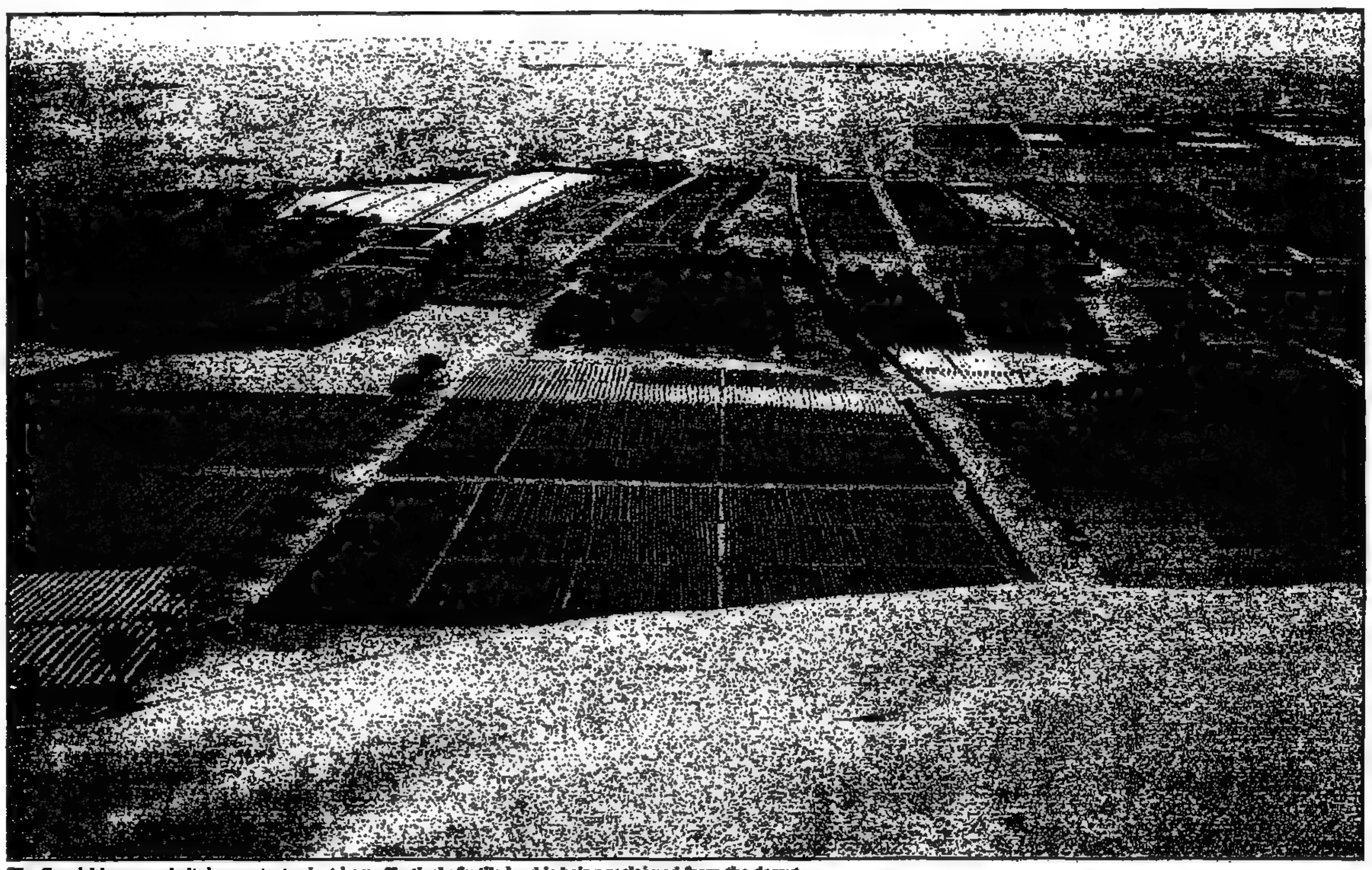
Oil production in Dubai is likely to drop at the end of the decade, and the Emirate is making vigorous efforts to entrench itself as a regional trading, tourist and corporate centre. Good hotels, shopping malls and entertainment are being used to woo foreign companies to settle in the Emirate, as well as tourists. The government wishes to boost tourism's share of gdp to 20 per cent by the end of the decade.

Abu Dhabi is also taking the free-zone route to diversification. The government is to invest some $3 billion into a complex of huge storage facilities, a new port and airport, and commodities trading exchanges to be built on Sadiyat island with a four mile bridge connecting it to the mainland. An industrial park is to open at Tawilah to the east of the city. Competition is fierce. Fujairah is expanding its existing zone, and Ajman will shortly start building the necessary infrastructure for a new zone of its own. Ras al-Khaimah is looking at the feasibility of a free zone on Al-Hullabaloo island.

Irrigation returns desert to man



Bulldozers prepare the sand for tree plantations



The flourishing greenbelt demonstrates just how effectively fertile land is being reclaimed from the desert

Trees have an obvious hold on the imagination of desert people. The date palm was a life-giver to pre-oil generations. Its trunk supported the high ceilings of forts, its leaves woven for huts and the hulls of inshore fishing boats, the fibre spun into ropes and baskets. The dates were – still are – the basis of as many dishes as there are days in a month. It was also, in a country of searing summer heat and scanty rainfall, as scarce as water.

As a young man in the mid-1940s, Sheikh Zayed was the ruler's representative in Al Ain. He was responsible for maintaining the falajes, the subterranean water channels. Without them, the region would have been lost to the sands. It was a key task, and it struck home. A massive effort has been put into water and irrigation programmes, with desalination plants backed up by satellite scanning to locate deep desert aquifers, and dams to prevent the water from occasional heavy downpours from running off into the sea. The UN's Food and Agriculture Organisation considers the irrigation system to be a model, and presented Sheikh Zayed with an award last year in recognition of it.

Coastal desalination plants, using sea water and low-cost energy, now supply two thirds of the country's water. Two new stations which have recently gone on stream are among the largest in the world, but demand is still growing and further expansion is planned.

A pilot project has assessed the use of solar energy in desalination. Groundwater exploration involves satellite imagery of limestone areas expected to have deep reservoirs, which are then tapped by discovery wells.

The gains to the cities have been relatively straightforward. Waste water in Abu Dhabi is recycled in a treatment plant to provide nine-tenths of the water needed by the city's twenty public parks and gardens. Residents are given free plants – and advice for those without green fingers – so that their gardens soften the steel and concrete. In Sharjah, for example, the city has increased water production from not much more than a million gallons a day to almost 50 million gallons now, with penalties and an awareness campaign to cut down on waste. The university city of Al Ain, whose low rise buildings are spread through open spaces and plantations, prides itself as a garden city.

The real revolution, however, is away from the towns. Desert farming is not some mirage; it is a brand new sector. The process is remarkable, squadrons of bulldozers growling over a section of desert to flatten it before the irrigation pipes are laid. Some 250,000 acres have been claimed for agriculture as the desert is pushed back. More than 130 million trees have been planted in Abu Dhabi alone, producing microclimates where the local temperature is reduced by several degrees.

Date palms, too, have flourished – ironically suffering a water overdose last spring when prolonged rains washed off pollen grains needed for fertilisation – and the country now has 25 million of them. The industry has become a significant exporter. Wildlife share the reserve on Sir Bani Yas island with an experimental farm on which apples, pears, pineapples, oranges and olives are grown.

One happy result of the new fields and forests has been a sharp increase in the number of birds that now make prolonged layovers on their migratory journeys.

The terrain was once too harsh and waterless for more than brief rest stops. More than 400 species now visit, and a quarter of them are known to breed in the country. This is not a cosmetic exercise in the recycling of oil money, even if the splashes of colour, against a backdrop of yellow and gravel grey, give the eye a vivid pleasure.

A country that, with a much smaller population, was forced to import most of its food has now reached 90 per cent self-sufficiency in poultry, vegetables and fruit.

The same figure holds true of dairy products, where herds of Jerseys now chew the cud – alfalfa, which grows so prolifically that it can be cut 14 times a year – far from the windswept rains of the Channel Islands.

Cereals are harvested in Liwa, vegetables from Digdagga in Ras al-Khaimah. Strawberries, grapes, guavas and fresh cut flowers are exported to Covent Garden.

There are social as well as economic gains to be had. Jobs and cash have been brought to rural villages, slowing the exodus to the cities. There are now 20,000 farms, mainly family-run on a few acres. One, on 30 acres between Abu Dhabi and Al Ain, is special enough to merit visits from overseas social workers.

It is worked by sixteen badly handicapped youngsters. In stable and caring surroundings, with specialist help readily available, they get the independence and pride of earning a living from the vegetables – tomatoes, chillies, aubergines – they grow for market.

Protecting the environment

Traditional skills such as falconry are still nurtured in the United Arab Emirates

Oil is a natural predator of wildlife. At sea, its slicks foul and entrap. Inland, the development it brings – trucks, roads, people – are hostile unless handled with care. The Emirates has scarce creatures. On land, there are rare gazelle, leopard, wolf and caracal lynx. Above them roam hoopoe larks and desert eagle owls. Most of the world's Socotra cormorants are found on the offshore islands; the red-billed tropicbird and crab plover breed nowhere else in the Gulf. At sea, the dugong, the helpless-looking and heartrending seacow, plods its way through the depths.

Their survival, but for decisions taken at the start of the industry and stuck to since, would have been in peril. Sheikh Zayed's passion for the country's fauna dates back to his youth. Hunting gazelle with a rifle, he realised that this was no more than "an outright attack on animals" and a cause of their rapid extinction. "I changed my mind," he said, "and decided to restrict myself to falconry only." He has led from the front.

An international conference on falconry and conservation was established. Large tracts of land were set aside for wildlife protection and to prevent uncontrolled hunting. Breeding herds of endangered animals were set up. Volunteer groups began to record flora and fauna. The island of Sir Bani Yas, once home to Nestorian monks and later the haunt of fishermen and pearl-divers, has become a sanctuary for Arabian oryx, sand gazelle and the mountain gazelle, the dhabi from which Abu Dhabi draws its name. Endangered species from other arid regions, addax, barbary sheep and the scimitar-horned oryx, have been introduced. More than a million trees have been planted on the island, recreating a canopy of green last seen in the Gulf five millenniums ago, when excavation shows that crocodiles and hippos wallowed in rivers that then turned dry in a brutal climatic change. The tree stands, and fresh water have attracted waves of migrating birds. Small warblers come from their distant breeding ground in Siberia, and hundreds of flamingo. Colonies of black-necked swans and Egyptian geese have been introduced around freshwater ponds.

Technology plays its part. Tiny 34-gramme transponders have tracked a timid houbara bustard on its flight from its wintering grounds over 1,600 miles to the borders of Kazakhstan. The study of the bird is carried out by the National Avian Research Centre, which investigates breeding biology and habitat. It also supports a falcon release programme, established by Sheikh Zayed, to strengthen wild populations. Falcon clinics have been set up to improve the care and husbandry of the birds, and to enhance their chances in the wild when they are let free at the end of the hunting season. The university at Al Ain maintains specialist units at the Desert and Marine Environment Research Centre. The city's zoo, spread over a thousand acres, is the largest in the Middle East.

A national museum of natural history in Sharjah prompts children to take an interest in their heritage. The desert is not a featureless waste. It has subtleties of shape and colour, by which the trained eye may navigate; ferns cling to steep slopes in the mountains, and, in dried river beds, the little roses of Jericho survive the heat in tight balls, suddenly unfurling in a rain shower to spread their rosettes.

The effort is country-wide. The Arabian Leopard Trust was established two years ago by the ruler of Sharjah, Sheikh Sultan. It researches into endangered members of the cat family – leopard, caracal lynx, Gordon's wild cat – and plans to create a captive breeding reserve in the Hajar mountains. The fine coral reefs off the east coast have been safeguarded by the ruler of Fujairah, Sheikh Hamad, who has established the first offshore marine reserve.

A third of the world's 80 species of whales sound at sea, and turtles breed on the islands. There are bottle-nose and humpback dolphin, finless porpoise and fighting fish, marlin, tuna and sailfish. They share the waters with some of the world's heaviest tanker traffic. Over 30,000 ships pass through the Straits of Hormuz each year, carrying a quarter of world oil exports, and maritime pollution has been a problem. Heavy fines are imposed on owners whose ships dump sludge and other waste.

The Federal Environment Agency has drafted laws that require the environmental impact of all development projects to be studied. It is illegal to shoot birds, and to collect their eggs, bans enforced by the Abu Dhabi Desert Rangers, who keep alive Bedouin skills in tracking animals. Falcons may still be taken hunting, however, and their use is increasing – for they represent the intimacy between man and the wild that is strongly encouraged.

International donor of aid

Navigating the often stormy seas of Gulf politics has always demanded a clear head. Four days before the UAE was formed in 1971, the Iranians seized three islands belonging to the Emirates. Regimes have come and gone across the water, but Tehran has refused to budge from Abu Musa and Greater and Lesser Tunbs. Indeed, four years ago, the Iranians refused to allow Emirati residents to return to Abu Musa.

Appeals to Tehran to enter into fresh bilateral negotiations, or to seek impartial arbitration from the International Court of Justice, are supported by the Arab League, the foreign ministers of the Damascus Declaration states and by other countries. They have fallen thus far on deaf ears.

The federation is itself the first successful experiment in unification in the Arab world. Regional cooperation – and non-interference in the domestic affairs of other sovereign nations – are the touchstones of foreign policy. It is a founder member of the Arab Gulf Cooperation Council, while seeking to further Arab and Islamic development as a whole. The plight of the Palestinians has long been a focal point of concern.

Despite its small size, it has been willing to lend support – both manpower and money – at times of international crisis. Troops were provided to support the liberation of Kuwait in 1991. More recently, with the United Nations' operation "Restore Hope", a military contingent was contributed to serve with the international UNISOM I and UNISOM II missions in war-devastated Somalia. As Serbian ethnic cleansing unfolded in Bosnia last year, food and medicine were shipped into Bosnia, whilst scores of wounded Muslims were treated in Emirate hospitals.

The country punches well above its weight in foreign aid. It has helped to build electricity projects in Morocco, to restore the historic Marib Dam in Yemen and to fund orphanages in Pakistan. Scores of projects in Egypt – in housing, farming, health – have been aided. The Abu Dhabi Development Fund, set up 25 years ago at Sheikh Zayed's direction, has supplied a total of $2.8 billion in overseas loans, aid and grants.

Flood and earthquake victims, as well as Palestinians and Bosnians, have been helped by the UAE Red Crescent Society.

A 1996 report of the International Red Cross and Red Crescent Societies revealed that the Emirates ranked seventh among world donors, and first among non-Western countries. Given a population of only 2.3 million, it is a heartening performance.

هكذا من الأصل

Five years on: how things have changed for top women in business around the world

Fair progress on a long road

Andrew Bolger assesses the success of efforts to bring gender equality to the workplace

What difference can five years make? That question will be to the fore this week, as Opportunity 2000, the employer-led campaign to improve the lot of women in the UK workforce, celebrates its anniversary.

Launched in 1991 with the support of 61 private and public-sector organisations, the campaign now has 310 members which employ more than 25 per cent of the British workforce.

Women account for nearly a third of managers in organisations belonging to Opportunity 2000 and 17 per cent of directors – nearly double the 1992 level. According to the Institute of Management only 11 per cent of all managers are women and 3 per cent of directors.

The proportion of campaign organisations offering flexible working arrangements to ease family care has doubled to nearly 60 per per cent.

These figures prompted Lady Howe, who chairs Opportunity 2000, to claim: "Women really are beginning to break through the glass ceiling."

Liz Bargh, the campaign's director since the launch, says: "I think we have achieved more than I might have expected, when I think back to that blank piece of paper.

"Opportunity 2000 is rooted in the business case. The acceptance that women's employment issues are in fact economic issues has grown quite significantly over five years. When I look back, I can see that progress has been made."

Yet it is not difficult to spot gaps in this optimistic picture. Within six months of its launch Opportunity 2000 was claiming its membership covered 20 per cent of the British workforce – so it has taken 4½ years to push the level above 25 per cent.

Bargh accepts this, but stresses that the campaign was launched in the depths of recession. "We've seen huge downsizing in a number of our members – BT and British Gas to name just two."

Having quickly gathered in many of the large employers – some of which subsequently shed thousands of workers – the campaign has recently been recruiting smaller organisations. But only 20 per cent of the campaign's members employ fewer than 500 people, so it is still dominated by large organisations.

Although recession inevitably inhibited recruitment and promotion, Bargh believes its net effect on the campaign was positive.

"Because we've had such massive change going on, organisations have really focused on skills. That has been one of the very big changes," she says.

"Five years ago the objective assessment of the competencies and skills that organisations need to manage in the future was being done by only a few organisations. That has become much more widespread, and when you actually put that sort of objectivity into recruitment, it tends to benefit women because it removes the old gender bias.

"One company in particular stripped out a division. They put all of their people through this assessment process. The outcome was that the proportion of women in management in that area almost doubled – from 9 per cent to 16 per cent. The benefit was that everyone saw it was fair, because everyone had been put through exactly the same process.

"So in that sense the process of the recession has been quite helpful, because it has really sharpened the focus on what skills do we need."

Successive recessions and recoveries have had little effect on another aspect of women's employment – low wages. Although women are now just a percentage point below making up half the British workforce, the Equal Opportunities Commission confirms that on average they are still paid 20 per cent less than men – in spite of more than 20 years of equal pay legislation.

The commission explains this by pointing to the continuing extent of gender segregation in workplaces and jobs. It says: "The concentration of women within occupational groups – as well as within workplaces – substantially depresses wage levels. Women get paid less for working with other women, men get paid for working with other men."

More than any other issue, pay illustrates the gulf between the members of the campaign and the rest of the economy. Bargh says: "Quite a number of the members of Opportunity 2000 do look at their pay structures to make sure there is no gender bias. Well over 50 per cent ensure that their part-time workers have access to the same terms and conditions as their full-timers."

But the commission says 85 per cent of all British workplaces either have no job evaluation, or have a scheme which is non-analytical. It says: "Private-sector companies restricted to one site were especially likely to lack analytical job evaluation, as were workplaces where the majority of the employees worked part-time."

Bargh accepts there are pockets of women who are "woefully" low-paid. "That's outside our remit – it's more within the remit of the EOC to tackle those issues, because they are broader than simply getting employers to ensure that the people they employ are treated fairly."

Another area where Opportunity 2000 has had to recognise its limitations is childcare. The commission stresses that lack of affordable nurseries is one of the principal handicaps facing women. Bargh says: "The record of increasing flexibility and opportunities among our members has actually been quite impressive. Flexible working, job-share, maternity, homeworking options – all of these sort of support packages – have more than doubled within our membership since the time we launched.

"Also, importantly, they are available to women and men, whereas at the time of launch it was seen as very much something likely to interest women. That has been one of the main substantial changes.

"But employers in the field can only do so much. We need to have work-partnerships between employers, government and providers to make sure that whether it is pre-school care, or after-school care, or care for the elderly, it is both accessible and affordable."

Next spring Bargh will hand over her post to Ann Chant, a career civil servant who has been trying to sort out the many troubles of the Child Support Agency.

Bargh will continue in the equality field, but on a consultancy basis. How does she assess her five-year-old? She smiles: "It was a child of its time – but I don't think its time is over, by any stretch of the imagination."

Isaacson (left) and Abraham: 'We give a dinner party for 1m people a year'

PARTNERS

Group Chez Gérard

Neville Abraham, 59 and Laurence Isaacson, 53, became partners in 1986 after buying two London restaurants. In 1988 they acquired a further three and founded Group Chez Gérard. They now have nine restaurants including Soho Soho, Café Fish and Scotts. Their annual turnover is £26m.

Laurence: "If a partnership is right, two and two can make five. It means pooling your strengths to compensate your weaknesses, and when that happens, you end up with a formidable team.

"We are both very focused on the customer's point of view rather than the chef's. In the past, restaurants were run by the chef who decided what he liked to cook and then waited to see whether the customers agreed. We treat this business like the entertainment industry. We feel we give people a good night out. The food and drink are essential, but it's the ambience, the service and style that makes it work.

"Some people give a dinner party for eight. Neville and I give a dinner party for a million people a year. Neville is in charge of the operational side and I do the marketing and design.

"He appreciates ideas in his own way, but he doesn't have my helicopter vision. When I found the location for Soho Soho, I took Neville along to show him this wonderful site. He said: 'But it's a bank.' I said: 'I know it's a bank; just imagine it isn't there.' He said: 'But there's a counter and offices upstairs.' I have the ability to conceptualise. Neville looks at things as they are.

"When we were buying Scotts I described a glass tube of bubbles which I wanted to look like the biggest G & T in the world and Neville looked at me as if I were mad. We have a totally different mentality, yet it's one of the reasons the partnership works."

Neville: "Laurence's great attribute is his vivid imagination. He can predict what people will want in the future and in some instances, convince himself that it's already happened.

"The drawback is that one has to deal with what's happening now and all the operational detail which he finds boring. Details make his eyes glaze over, so I involve him in all the important meetings and give him a 10-minute synopsis on the rest.

"Neither of us are married or have children, so we don't feel as if we're building a dynasty. We both love the idea that young people can succeed in our company, which means we give all the staff a share option.

"Laurence deals with the externals and I look after running the business. I'd be hopeless at serving in a restaurant. I'd much rather hang around the back making sure everyone was happy.

"The restaurant business is like a show; you have to keep rewriting it. We continually look at menus, pricing, lighting and the speed of service – once that's successful the rest, as they say, is location.

"Laurence loves the theatrical aspect of being up front. He's a bit of a luvvie, a chameleon who can change his personality depending on what impression he wants to make.

"He's very popular with the staff because he doesn't have any direct executive responsibility. Very few people report to him other than PRs and advertising consultants, so he can play the paternal role.

"We're like two sides of a coin in many ways, but the business would be ever so boring without him."

Fiona Lafferty

Who dreamed up this bright idea?

Lucy Kellaway

Dreaming is in. Not what we do at night – although I did have an "in" dream the other night about a pair of shoes with blue platform soles – but what managers and companies do. Consultants Kinsley Lord have just published a cute little monograph called "Deliver the Dream". Peppered with quotes from Goethe, Gandhi, Lao Tzu, Freud and Anita Roddick (depressing how she has wangled her way into the company of the greats), it concludes that companies that want to be better than the competition, year in year out, have to have a dream.

This was in my mind as I turned to more prosaic reading matter in People Management magazine. There I discovered that the hitherto bungling, incompetent borough of Hackney has taken the dreaming idea one step further. Over there in east London they are attempting a "collective re-dreaming". Tony Elliston, the chief executive, talks about it in terms of "getting rid of hierarchies ... empowerment ... revolutionary change programme ... vision ... devolution ... empowering ... customer care ... unblocking people's potential ... holistic programmes". In other words, he is doing a public-sector classic: gathering up all the management guff spewed out by the private sector over the past 15 years, and adopting it lock, stock and barrel.

Next time I take the children to the Britannia leisure centre in Hackney I'll study the behaviour of the person who sells the ticket. Re-dreaming? Day-dreaming more like. Just possibly, if you are Microsoft you can get away with a dream or two. But if I were Hackney council, I'd stick to the real world.

In 1972 a book was published called *The Joy of Sex*. Nearly 25 years later a CD-Rom is published called *The Joy of Customer Care*. The first did something new. It was an informative, witty manual about sex which sold 8m copies and is still selling in a brand-new edition. *The Joy of Customer Care* is also trying to do something new by putting this type of management training on CD-Rom.

Both publications cover various topics that I never knew existed – "feather" and "goldfish" in *The Joy of Sex*, "Customer Democracy" in *The Joy of Customer Care*. The difference is that in the first instance I am curious to know more; in the second the very name is a turn-off.

E*Smart, the company that has produced the CD-Rom, explains: "It puts the fun back into learning and presents the basic principles of customer service in a highly focused and enjoyable way." Maybe a few people will feel inclined to pay £555 for the package. One thing is sure: in two years' time, let alone 20, no one will want to know. The problem is that customer service is not joyful. Neither is it fun. Though in fairness, it is not clear that reading a book about sex improves performance there, either.

According to Bill Cockburn, the new chief executive at W.H. Smith, companies need to concentrate on their customers and manage their staff well. "Get those right, and the results will flow," he said in the FT.

This is becoming the new conventional wisdom in the stakeholder/shareholder debate: if you serve the rest of your stakeholders, then your shareholders will be happy too. The view strikes me as a convenient fudge. For most of the time the interests of shareholders, staff and customers lie in the same direction. But at the margin they diverge. And it is at those times that the management needs to be clear on precisely whose interests it is supposed to be serving.

On *Inspector Morse* last week management consultants got their first ever mention – and distinctly unflattering it was. Thanks to consultants the Thames Valley police force was being downsized. Morse was grumpier than usual, Lewis catatonic.

Morse may not be real life, but it is watched by 18m people. If consultants are getting a bad press there, it might be time for them to do something about it. After all, they have plenty of experience in telling their clients how to improve their images. Even though the average Morse viewer is not the person who signs consultants' cheques, that weight of bad feeling will surely be felt on their business one day.

One or two consultancy firms are considering action. Thomas Group Inc has dropped the label, opting to call itself a "resultant". A nice try, but to the extent to which we suspect consultants of being glib, the new name is if anything worse than the old.

BUSINESS EDUCATION

Della Bradshaw assesses what business school benefactors get in return for their money

Oxford extends the boundaries

He who pays the piper calls the tune, they say. Wafic Said, the Saudi entrepreneur who has offered Oxford University £20m to build a business school, is finding that this is not always the case.

Oxford's ruling body, known as the Hebdomadal Council and made up of 24 senior dons, has gone back to Said to review the terms under which he will donate the £20m. The move follows disquiet expressed by Oxford's teaching staff – in less refined surroundings the situation might well be deemed an unholy row – over the deal Said has negotiated.

Said has specified that the building will be controlled by a Foundation, which will have 10 members, including Said, and five further members appointed by him. This foundation would have the right to veto the appointment of the school's director if it felt the candidate were unsuitable.

The proposed site for the school, today a university playing field, would be transferred to the Foundation. Because the deal requires matched funding, a further £18m needs to be raised from other sources, in addition to the £2m Oxford site, before Said gives his total of £20m.

The terms are unprecedented in terms of business school funding. The most benefactors usually receive is a seat on a business advisory panel.

At Templeton College, Oxford's executive management college to which Sir John Templeton gave a little more than £7m in two tranches, two members of the Templeton family sit as trustees to oversee the investment of the funds – there are five trustees in all. But the family has no input into the day-to-day running of the college.

At the Judge Institute in Cambridge Sir Paul Judge, former chairman of Premier Brands, gave £8m to help convert the old Addenbrooke's hospital for use as a business school. In return he got his name on the letterhead and the chair of the advisory board, a group of people intended to bring real business experience to the school.

Judge sees his role as being "generally supportive" and encouraging other potential donors to give money to the institute.

Judge, a former undergraduate at Cambridge who went to Wharton in the US to study for his MBA, says he gave the money because he felt management studies needed to be better recognised in the UK. "Management really is a profession which needs training, like law or accountancy."

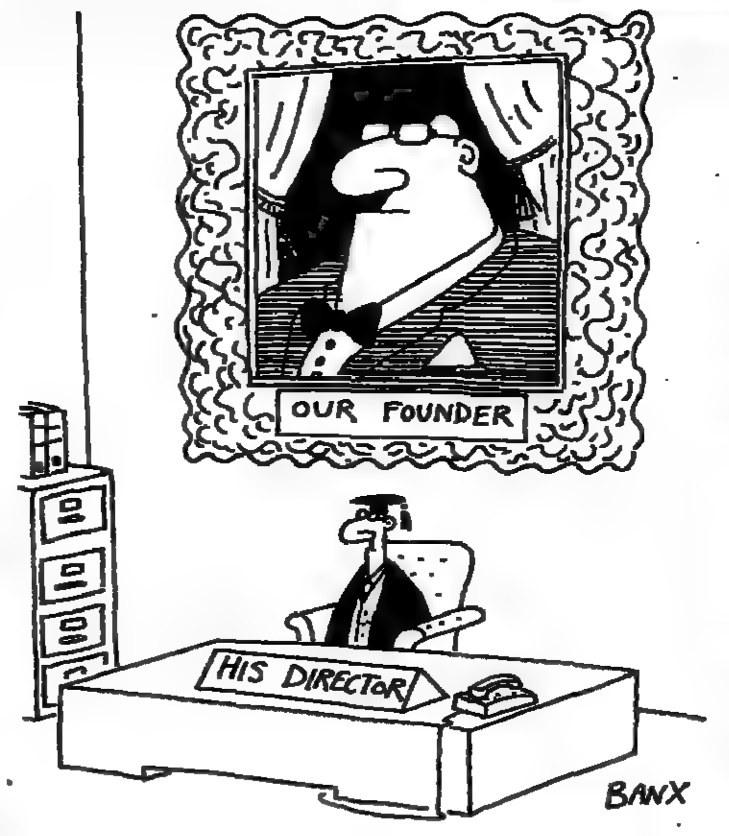
While Said spent four years negotiating his deal with Oxford, Judge says he agreed the terms of his donation in "a couple of afternoons".

In North America, where benefactors are a way of life, it would seem to be enough merely to be philanthropic, as two recent cases prove.

Ohio State University changed its name in 1993 when industrialist Max M. Fisher donated $20m (£11.9m) to help with building work and programme development. Fisher, now in his 80s, is the honorary chair of the school's campaign committee and has a "philanthropic role, not a policy role", according to his office.

In Canada, the University of Western Ontario, based in London, received donations over a number of years from the local Ivey family, to the tune of nearly C$20m (£8.8m) at 1995 prices for the business school alone. When the business school received its latest C$11m in 1995 it renamed the school the Richard M. Ivey School of Business. The only other acknowledgement has been the appointment of the benefactor's son, Richard W. Ivey, to the school's advisory committee, which has about 40 members.

Ivey family members had no input whatsoever in the recent appointment of dean Lawrence Tapp, says Ken Hardy, associate dean. "The Iveys would simply never ask for that," he concludes.



NEWS FROM CAMPUS

Criticisms goad Chicago into action

In an attempt to get to the top of the US business school rankings the University of Chicago's Graduate Business School has split the job of deputy dean. It has assigned Robin Hogarth to deal with the full-time MBA programme and appointed Mark Zmijewski to deal with the part-time MBA.

The move is intended to improve the quality of service to Chicago's business students. According to the school's mission statement, it intends to "strive to be the top of all rankings including those surveying our students".

In the recent *Business Week* rankings Chicago slipped from third to eighth place and was particularly criticised for its placement services.

Chicago: US, 773 702 1680

Slovak professors come of age

Twenty-one professors from universities in the Slovak Republic are learning some of the pros and cons of management teaching at the Erasmus Graduate School at the Rotterdam School of Management.

The visit is part of a three-year European Commission project called Issue (Iso standards in Slovak university education). The end goal is for professors to publish case studies based on events in Slovakia. Western management students are also given the opportunity under Issue to perform research in Slovak universities.

RSM: Netherlands, 10 452 9509

London chef is in a league of his own

Food for thought: Robert Allen, executive chef at London Business School, will be one of the judges at next year's International Chef Olympic competition, in Texas, which aims to promote talented young chefs.

Allen, a former pupil of super chef Anton Mosimann, is responsible for feeding 600 people a day at LBS. Insiders say his puddings deserve a special mention.

LBS: UK, (0)171 262 5050

CONFERENCES & EXHIBITIONS

DECEMBER 2 & 3
FT World Telecommunications - New Alliances for a New Era
Growing competition as the telecommunications market is liberalised, increasing globalisation and the rapid advance of technology, will bring about fundamental changes and with them challenges for both new an established players. This year's conference will bring together many of the industry's leading experts to debate the key themes the industry must address. Speakers include: Sir Peter Bonfield CBE, Chief Executive, BT, Michel Bon, Chairman, France Telecom, Peter Tseng, Chairman, Info Telecom Group, Chief Executive, New World Telephone Ltd, George Schmit, President Omnipoint Communications Inc.
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Fax: 0181 544 9020
E-mail: michael.gaynor@business-intelligence.co.uk
London
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DECEMBER 4-6
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Targeting Business: a half day Marketing Seminar hosted by the Financial Times
This seminar is aimed at marketing people primarily in the business to business sector and will examine the relative importance of big companies and the people who run them to the UK's economy. Speakers include Patrick Barwise from London Business School, Adrian Fornham from University College, London, Peter Martin, the FT's international editor plus communications specialists from industry. A new survey on the corporate responsibilities and the media habits of the Directors in Britain will also be launched at the seminar. Places available will be limited.
Tickets cost £115 inc. lunch. Register with Objective Research and Consultancy. Tel: 01323 761420 Fax: 01323 763037 or Peter Highland. Tel: 0171 873 4075 Fax: 0171 873 3065
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DECEMBER 11-12
Creating Customer Value with I.T.
This conference explores new ways of developing, delivering and managing systems and applications to enable and support customer-facing processes.
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E.mail: michael.gaynor@business-intelligence.co.uk
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DECEMBER 12 & 13
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The fifteenth FT World Pulp and Paper conference will provide a forum in which experts from the industry will provide up-to-the minute information about price movements, supply and demand. At this dramatic time in the industry, no-one involved can afford to miss this chance to examine the issues with key decision-makers from around the world. Speakers will include: Mr John T Dillon, International Paper Company; Mr Arild Nielsen, Canfor Corporation, Chairman, The Canadian Paper Association; Mr H M Mansur, Indonesian Pulp & Paper Association; Mr Martin Glass, EMGE & Company; Mr Philippe Beyller, Arjo Wiggins Appleton plc; Mr Ramsay Hampton, Aylesford Newsprint Limited.
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Fresh life in the glasshouse

Growing unseasonal produce provides an opportunity companies are starting to grasp, reports **Maggie Urry**

Growing in a glasshouse in West Sussex, carefully screened from snoopers and patrolled by security guards, is the first commercial crop of English strawberries for Christmas consumption.

If all goes well, pickers will start harvesting the fruit between December 15 and 20, to go into Marks and Spencer stores in time for the holiday season.

The same plants – nearly 60,000 of them – should continue producing fruit until June next year when the usual outdoor strawberry harvest begins. By the time the traditional English-grown strawberries have finished, the glasshouse will have been restocked with new plants to provide next winter's crop.

Soon the strawberries will be joined by raspberry canes which should start fruiting next March, well before the peak UK production in July.

Meanwhile, in the frost-free fields of west Cornwall, the cauliflower cutting season started recently. Cauliflowers can grow in the warmer climate west of Redruth, Cornwall, through the winter, bridging the gap in UK-grown supplies.

The strawberry grower is Van Heyningen Brothers (VHB), the horticultural division of Hazlewood Foods. It is the largest glasshouse company in the UK, with 165 acres under glass. The cauliflowers are being cut for Elgro, originally a co-operative of East Lincolnshire growers which last year became a private company.

Both believe that consumers' apparent appetite for "out of season" produce, which retailers satisfy at present by importing from warmer climes, presents an opportunity for UK growers, and have found ways for the British growing season to be extended, in some cases to year-round production.

Britain can replace expensive, imported produce with home-grown varieties. Doing so gives a better service to supermarkets – and thus consumers, in terms of freshness, flavour and price – and helps reduce the UK's trade deficit in food.

Both also realised that the best way forward was to work closely with the large supermarket groups. The share of the fresh produce market taken by greengrocers and market stalls is declining rapidly, while sales via supermarkets expand.

Each was involved in a five-year Strathclyde University project to encourage food producers and retailers to work together to reduce – even reverse – Britain's food trade deficit.

Arnold Lewis, managing director of VHB, admits the company has never grown a strawberry or raspberry before. Its main crop is tomatoes.

But it has a track record of innovation, helping develop the market for specialist varieties like plum and truss tomatoes, and in the last three years building the market for pot-grown herbs sold through supermarkets.

He says VHB's skill is being a grower – not a tomato grower. Its glasshouses incorporate sophisticated heating, lighting, watering and feeding methods, but also use "natural" methods. (The strawbs are being pollinated by bees).

Having decided that soft fruit offered scope for VHB, the company approached Marks and Spencer. VHB went to Marks and Spencer because the company is "good at picking up innovative ideas" and is Britain's leading soft-fruit retailer.

This Christmas, Marks and Spencer will be able to test demand for English strawberries at different prices to achieve the best combination of volume and margin.

UK retail prices for raspberries flown from Chile, for instance, sell (at retail) at up to £25 per kilogram. And, says Lewis, they do not have much flavour.

Results of Christmas sales will help VHB and Marks and Spencer determine how much to grow for next year and at what price to sell them. John Simons, chief executive of Hazlewood, thinks the profit potential could be significant.

Elgro's managing director, Philip Sharpe, says the business started in 1964 as a farmers' co-op, which looked for customers for whatever its members wanted to grow.

Now, although still owned by its farmers, its role is to see what the market wants and to find ways of satisfying that demand. Elgro works closely with J Sainsbury and Safeway to grow crops to their liking.

Cauliflowers were always an important part of the business, but the Lincolnshire season ran from the end of March to early November. Supermarkets would plug the gap by importing cauliflowers, mainly from Brittany.

Elgro realised that the west Cornish climate was similar to Brittany's, so it approached local growers and rented land to produce cauliflowers for the winter months.

Elgro has been working to extend the broccoli, carrot and onion seasons, too. It has launched a range of prepared vegetables, to be eaten raw or cooked easily.

Sharpe says that if people want to eat strawberries at Christmas or have their spring greens ready washed and cut into ribbons, farmers must respond – or miss an opportunity.

Fair trade outstrips boycott brigade

Arturo Himenez is a coffee grower in the politically volatile Chiapas region of southern Mexico. His life is hard but made better by the fact that instead of selling his coffee to a *coyote*, or Mexican middle man who rips him off, he sells his coffee to a UK fair-trade organisation, Cafédirect.

"It has made a real difference," says Himenez. "The kids have shoes and extra to eat. We still lack a lot, but these are real changes."

When the Cafédirect brand was launched in the UK five years ago, it was sold through Oxfam and church organisations so as to appeal to the "boycott brigade" – consumers who avoid products from ethically unsound countries.

But Cafédirect realised that if it was to be of greater help to coffee growers, it had to sell to a wider audience.

Marketing manager Humphrey Pring says: "We got our first big break in 1993 when we persuaded Safeway in Scotland to list it. Sales were surprisingly strong, and since then every major supermarket sells Cafédirect."

The company is estimated to have 3 per cent of UK sales of roast and ground coffee.

Pring attributes this to greater consumer awareness of product origins and a shift by supermarkets to take more account of where they buy supplies. Above all, he claims, sales are rising because of the product's quality. "It tastes good."

The company hopes to attract new customers who are "semi-ethical", says Pring, and, in the next five years, to diversify into other fair-trade products.

Helen Jones

Carnival for pint-sized consumers

Virginia Matthews describes plans for luxury stores for children

A giant soda bar, state-of-the-art indoor play areas and positively no pop music are among the attractions planned for Daisy & Tom, Britain's first luxury department store for children.

Due to open its first branch next spring, in a prime site on London's King's Road, Daisy & Tom is the brainchild of Tim Waterstone, the bookshop chain founder who sold out to W H Smith three years ago and now "longs to return to shopkeeping".

The plan is to sell everything for children aged 0 to 10, from highchairs and rattles to the latest whizz-kid computer software. But main areas of focus will be top-of-the-range toys, clothes, books and stationery.

The King's Road site, which at 20,000 sq ft is the size of a small superstore, is likely to be followed by two or three more stores – larger ones – in London and possibly Scotland next year. As many as 30 Daisy & Toms are planned.

Waterstone's partners in the venture are Christopher Thomson, director of the magazines and comics firm D C Thomson, who, like Waterstone, has 37 per cent of the company; and Questor Capital Management, which controls the remainder. Together, they are providing start-up capital of about 25m.

Daisy & Tom, says Waterstone, will be a "luxury emporium for children" where pint-sized consumers and their parents will find, under one roof, the best in children's products, from upmarket frocks to games.

While Waterstone believes that "designer-led retailing can be problematic", he says the look of the stores will be of paramount importance. He plans to install a large, fully operational carousel at the heart of the King's Road store, and has drafted in stage designers to help achieve the "correct level of opulence".

If the format takes off, Waterstone plans to take his formula to other parts of Europe. "I'm concentrating for the moment on the areas where Waterstone's did so well, including London and parts of Scotland, but I can equally

Tim Waterstone: Daisy & Tom is his brainchild

imagine Daisy & Tom taking off in France or Germany," he says.

Although he admits that some of the ideas for Daisy & Tom have been borrowed from other upmarket stores – the teeny hairdressing salon from Harrods and the white and chrome soda bar from an adult store in Chicago, for example – the idea of a one-stop luxury store for children will, he says, offer something unique in the crowded children's market.

On paper at least, Daisy & Tom's closest rival in the UK is Childrens' World, the loss-making ex-Boots chain purchased earlier this year by Storehouse. While strong in fashion and toys, it has neither the breadth of merchandise nor exclusive ambience envisaged for the new venture.

Waterstone, who at 57 has two young daughters of two and three – his daughter Daisy and Thomson's son Tom provided inspiration for the name – makes no apology for the middle-class nature of the venture.

"It clearly will be a store for people with money, be they parents or grandparents, but I believe that this is a gap in the market that needs to be filled."

The Daisy & Tom brand name itself will become an important feature of the stores, appearing on everything from clothes and books to stationery.

Figures from Mintel, the market research group, suggest that the UK toy market is emerging from the doldrums. It forecasts sales this year of £1.6bn for toys and games, rising to an expected £1.9bn within three years.

Average annual expenditure on toys is £140 per child, according to the British Toy and Hobby Association. Sales of children's clothes, particularly girls' clothes, have grown at a spirited rate in the 1990s, says Mintel. The UK market for children's books up to 16 is estimated to be worth about £320m.

Tim Waterstone says: "On the whole, the successful chains like Waterstone's and Dillons are weak on children's books. Daisy & Tom will be the first major children's book chain to address this weakness."

Waterstone believes that "sheer demographics" are on his side – the child population is climbing steadily – but more significant perhaps is the rise in "guilt purchasing", particularly among affluent (often older) parents.

"It is demonstrably true," says Waterstone, "that parents are often too busy at work to see much of their children during the week, just as it is also true that they need somewhere wonderful to take their children to on Saturday afternoons. I see no reason why that somewhere shouldn't also be a place where they can buy their children beautiful things."

Television by numbers

Digital recording formats will allow amateurs and semi-professionals to make broadcast quality programmes with ease, writes **David Thomas**

Soon, Sony's latest digital camcorder will go on sale in Britain. By itself, this will not change the face of television, for the camera isn't even aimed at broadcasters. But it is the latest step in a process that is changing the television industry as surely as digital technology changed publishing and printing a decade ago.

Attention has been lavished recently on the imminent arrival of dozens of new digital television channels, with most speculation homing in on fears that a few media moguls – or even a single mogul – would gain a monopoly of television distribution through provision of the set-top boxes that viewers will need to receive digital transmissions.

But, almost certainly, the set-top box furore has missed the point. The real change that the marriage of television and digital technology will bring about lies not in the distribution of programmes but in their production, and that is a genie that even the most powerful mogul will be unable to keep stoppered up.

To date, television has been an expensive business. Its greatest costs are incurred during the creative and production stages rather than later, in broadcasting – or distributing – programmes. Ideas are cheap in any media, but before an idea can be turned into television someone – normally the broadcaster – has to spend real money on it.

The cost of cameras, the cost of skilled crews, and the ever greater sophistication of editing and graphics turn even the simplest idea into an expensive logistical nightmare, and that is just as true for a dozen chat shows produced in a single studio day for a cable channel as it is for a one-off documentary for Channel 4.

Consequently, a television producer does not start work on a programme until he secures a commission from a broadcaster. As a result, broadcasters hold all the cards and, naturally enough, will only spend money commissioning programmes from producers they know and trust.

But that relationship is about to change. What will change it is the fact that a programme maker can now walk down London's Tottenham Court Road and, for a sum equivalent to the cost of a few days' hire of a camera crew, buy all the equipment needed to shoot a broadcast-quality programme.

What has made this possible is the introduction of new digital recording formats that have enabled the gap in quality between equipment used for broadcast television and the vastly less expensive equipment designed for the consumer market to be all but closed.

That will have an effect on the television business at least as significant as that of the Leica 35mm camera on photo-journalism in the 1930s. As a consumer product, the camcorder has been around for some time. But, while a few series such as the BBC's *Video Diaries* have crossed the quality/cost divide, limitations in picture quality kept the camcorder firmly outside mainstream programme making.

However, the new digital video (or DV) format produces material good enough to broadcast without apology, even when recorded on camcorders designed for the consumer market.

Future shocks: Danny Edwards (Miss Teddi Bare) starred in Soho Stories

For an enterprising programme maker, a camera he can operate himself, that is light enough to carry around all day and cheap enough to use like a tape recorder, is better than a new train set.

That was not what the manufacturers intended. Sony, Panasonic and the others assumed they would continue to sell one set of products to a relatively small broadcast and professional market, paying tens of thousands of pounds for the highest possible quality; and completely different products to a mass market of amateurs and semi-professionals paying a fraction of that for good but definitely non-broadcast equipment.

> When television was limited to a few channels and programmes cost tens of thousands to make, those responsible for them felt part of the nation's cultural élite, even if they were making *Blankety Blank*

The manufacturers were not entirely wrong in their assumption. Not every producer will want a digital video camera in his Christmas stocking. In Britain, the next series of *Cracker* will definitely not be shot by the director with a camcorder, and the BBC's next big-budget classic serial will be shot by a large and highly skilled crew, and probably on film.

The quality of material produced using consumer versions of the digital video format (as well as the cameras themselves) *do* have limitations compared to present-day professional broadcast equipment, but the difference is small enough for many programme makers to ignore, particularly in situations where a conventional camera crew would be an intrusion.

The director of the recent *Soho Stories* on BBC-2 shot the series himself using a Sony camera costing less than £3,000 ($5,070). BBC-1's *Watchdog* and *Holiday* series regularly include items shot by their reporters without a crew. The *Morning Surgery* medical-actuality series produced by the BBC's science department used a mixture of conventional and domestic equipment and cost a fraction of what it would have cost had it been made conventionally.

Several of the cable channels have been exploiting the new format for some time and, though there have been industry stories about crews not being taken seriously at premiers and press conferences, the same thing undoubtedly happened to the first press photographers to use the new 35mm format in the 1930s.

Sony's new DVCam format is a more robust version of the consumer format and, while intended for used such as training, medicine and industry, the availability of professional equipment at this level only emphasises that the old distinction between broadcast television and non-broadcast video no longer holds. If a product is good enough for the job then broadcast programme makers will use it, whatever the manufacturer's intentions.

So far, the digital revolution has had an impact mainly at the shooting stage. Editing and post-production work on digitally-shot equipment have remained as costly as in the rest of television. But here, too, revolution is in the air. The great virtue of digital recording is that pictures and sound can be manipulated endlessly without loss of quality.

That means that fairly inexpensive equipment can do the manipulating. Sony already produces a consumer-market DV editing deck for about £3,000, and at least one BBC reporter uses it at home to shape and edit his material. Traditional post-production facilities may still provide the final French polish to a programme, but any reasonably fast PC can become a desktop editing suite – one, moreover, that the programme maker doesn't have to hire by the hour.

Computer-based editing and graphics already dominate television post-production but, rather like computer-based typesetting in the old print industry, they use expensive specialist hardware and software and so need highly skilled personnel to operate them. In contrast, the new generation of post-production equipment is more likely to sit on the director's desk.

The BBC and several other broadcasters have been developing their use of low-cost digital technology for about nine months, and its potential to save money even within traditional programme-making organisations is already established.

But genuinely low-cost television will fundamentally change the dynamics of the industry. Instead of programme makers having to take their ideas to broadcasters and hoping to get the money to produce them, they will now be able to risk making the programmes first – then offering them for sale.

With a multiplicity of channels looking for material to fill their schedules, this will put far more of the power where it belongs – with programme makers and their audiences – and take it away from commissioning editors and broadcasters.

All this will require new ways of thinking in the television business. When television was limited to a few channels and even the simplest programmes cost tens of thousands to make, those responsible for them felt part of the nation's cultural élite, even if they were making *Blankety Blank*.

What digital technology will do to television is very similar to what it did to printing and publishing a decade ago. No longer was publishing the preserve of those with the money to employ typesetters and layout artists and all the paraphernalia of hot metal. And, though desktop publishing did not turn everyone into a publisher, those who had the skills could use them in new ways without having to ask permission.

Some of the results of desktop publishing were truly dreadful. And some of the results of the new television will be dreadful as well. But there will be a great deal that is fresh and innovative.

The changes generated by digital television will not happen at once. Some programmes may hardly change at all, for the television industry has very large investments in existing equipment to worry about, and considerable emotional investment in its assumptions about the ownership of skills.

Nobody knows where the digital revolution will take television. But then, predictions about mass media are usually wrong. So be prepared for surprises.

David Thomas is a freelance television producer and consultant.

Tim Jackson

Roaming empire

What is the biggest cost of operating an Internet service provider (ISP) like Netcom or Demon? You might think it is the cost of connecting to the Net backbone, which has recently grown to an astounding capacity of 622 megabits per second in the US. Alternatively, you might imagine the drain comes from modems and computer hardware, as customers use the Net for rising numbers of hours each month.

In fact, it is acquiring customers in the first place that costs real money. ISPs seek signups through magazines, affinity groups, newspaper promotions and bundling deals. They shower the market with try-my-service diskettes, so much so that an American artist recently constructed an entire installation from floppies received in the post.

The latest expensive way to look for customers is by advertising with Microsoft. Its Windows 95 operating system has an icon on the desktop which allows customers to click for a list of ISPs and their tariffs. ISPs pay the Redmond monster a bounty of $50 a pop for each sign-up that results from this referral service. In some cases, they even pay advances of more than $100,000 for the privilege of being added to the list.

One can just about make a defence for high promotional spending by America Online, the giant of the industry. As a proprietary online service, AOL makes its money mostly from advertising and from electronic commerce. Brian Oakes at Lehman Brothers in New York admits cheerfully that AOL would spend $260 to acquire each new subscriber in the first quarter of 1997, but defended the company by saying that the lifetime revenue to AOL from each subscriber was nearly $800.

Unfortunately, ISPs cannot quote those kind of numbers. No ISP I have come across has found a way of taking a serious share of the revenues that arise when its subscribers buy things online. The ISPs' difficulty is that delivering content and commerce across the Web is so easy that only the tiniest companies are willing to sell through intermediaries.

While a company like AOL can partly control the interface, an ISP cannot stop customers from powering up their favourite browser and e-mail package and using the service without noticing who connects them to the Net.

The one real advantage an ISP can offer is quality of service, measured by swift, reliable connections and good technical support. The trouble is that this has about the same romance and loyalty as the telephone business. It is an apt comparison: like mobile phone operators, ISPs spend heavily on customer acquisitions and then succeed if they can keep the rate of "churn" low. The big difference is that the barriers to entry are much lower in the Net business.

Anyone with $10,000 to spend on phone lines, computers and modems can set up in business as an ISP and the strongest disincentive for customers to switch is the inconvenience of changing their e-mail address. Hence, perhaps, the slew of companies recently set up to profit from the woes of ISPs.

Pobox.com charges $15 a year for allowing me to switch ISP daily while maintaining the same address. That allows customers to use every free diskette that comes along, switching every few weeks to the next promotion. A newer approach is to deliver a service that helps ISPs attract and retain customers.

JFAX Personal Telecom, which allows people to give contacts a phone number for incoming calls and faxes which are then forwarded to them across the Net, pays a bounty to ISPs for referring customers. It pays a rather larger bounty if the ISP installs equipment on site offering the local-number service in its home city. *Faxaway.com*, a service that allows customers to send faxes by sending e-mails instead, pays 5 per cent commission on first-year sales generated from ISP referrals.

The latest example is roaming services. Inside the US, using the Net while travelling is hardly a problem: most big ISPs have national coverage. Internationally, things are different. Until now, most Net users have had to make an international call back to their ISP simply to check their e-mail.

iPass, a Californian start-up, has solved the problem by developing an authentication system allowing one ISP to give service to another ISP's customers. Its business works by billing the customer per minute, and dividing the spoils between the customer's own ISP, the ISP whose node was used while travelling, and iPass itself. To build its franchise business, iPass lets ISPs sign up over the Web in only a few minutes, so they can start offering service the next day.

Such services are definitely useful, and companies that dream up business models that look attractive to ISPs will doubtless earn attractive profits. Roaming is likely to be particularly strong in Europe, with its patchwork of open land borders and its fragmented Net industry. But in the long run, I see a different roaming model emerging, in which ISPs simply offer international service through affiliates as part of the basic package.

There's only one problem: you still need a bag of phone plugs to connect into the incompatible sockets of the places you visit.

tim.jackson@pobox.com

Cyber sightings

● Futures Magazine online (*www.futuresmag.com*) is an interesting source of information and gossip for futures and options traders. The site offers daily news updates as well as content from the magazine. The site also has TraderScan – an overview of the managed money markets – and Futures Talk, which is a moderated discussion forum. All in all, the site is well worth looking at.

● The National Association of Personal Finance Advisors (*www.napfa.org*) is the largest professional association of comprehensive fee-only financial planners in the US (apparently). Their site has a variety of material as well as several interesting external links.

● The Street (*www.thestreet.com*) is a membership-based financial news and opinion service. You can sign up free of charge for two weeks, after which it's $12.95 (£7.70) a month.

● dotFarming (*www.dotfarming.com*) from United News and Media is a gateway to the world of agriculture on the Net, and includes content from Pig Farming, Livestock, Arable Farming and Farming News. Thankfully, the site has no sound files.

● For details of ConnectCall's new Web-based personal teleconferencing system, developed in association with TPS Call Sciences, which is claimed to be the "world's most advanced", take a look at their site (*www.tpsinc.com/connectcall*).

● The International Coffee Organisation (*http://ico.org*) has made its Coffeeline database, with more than 35,000 records, available by a password-protected search service called NlightN (*www.nlightn.com*). It's chargeable for downloading and you'll need to register.

● Occasionally, there is an unfortunate line break in these address listings which means a hyphen may creep in. If you enter an address and it doesn't work, try it without the hyphen. If all else fails, try using a search engine to track down the domain name.

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Financial Times on the World Wide Web www.ft.com Updated daily

Marketing every Monday: From today, the FT's Marketing page, which used to appear in the UK edition on Thursdays, will appear in a new two-page Marketing/Advertising/Media spread in all editions each Monday. Colin Amery's writings on architecture, which formerly appeared on Mondays, will now mainly be seen in the Weekend FT.

هكذا من الأصل

Travel News · Roger Bray

Wings clipped

São Paulo-based airline Transbrasil, which launched a new service to London only a week ago, has had its wings clipped already.

It has been forced to halve the number of flights it operates between Gatwick and Brazil. Says the airline: "British Airways flies seven times a week and Varig [Brazil's biggest carrier] has five. That left us with two under the bilateral air agreement – but we thought we could have four because we were operating smaller aircraft."

No such luck. British officials, he says, insist Transbrasil may operate only twice a week.

Greener guests

Green travellers will soon be able to stay in a hotel which is claimed to be "97 per cent recyclable". Developed by the Stockholm-based Scandic group and due to open next autumn, the 194-room property is part of an inner-city regeneration scheme in Oslo. Director Ola Ivarsson says: "In Sweden one out of two customers vote with their wallets and prioritise ecologically sound projects. And we can now see similar practices emerging across Europe."

Limits lifted

Eight airlines have announced the immediate removal of limits on compensation paid to passengers or their relatives for death or injury in crashes. They are: Austrian Airlines; Crossair, the Swiss carrier; Finnair; Dutch airlines KLM, Martinair and Transavia; SAS; and Swissair. They are in the vanguard of 77 members of the International Air Transport Association which have agreed that courts in the countries where travellers live should set compensation.

The present limits under the Warsaw Convention vary from $10,000 (£5,950) to $380,000, which may not be adequate to make up for the loss of a high earner.

Delhi's new tax

Delhi's municipal government has slapped a 10 per cent luxury tax on hotels. The move has added $27.50 a night to the full published price of a single room at the capital's Taj Mahal hotel, for example.

Critics say Delhi politicians are taking advantage of a boom. Rates in the city have rocketed by up to 30 per cent in the past three years and with four-star and five-star hotels there running 80 per cent full, there is little sign of relief.

And the latest levy comes on top of an existing 10 per cent nationwide "expenditure tax".

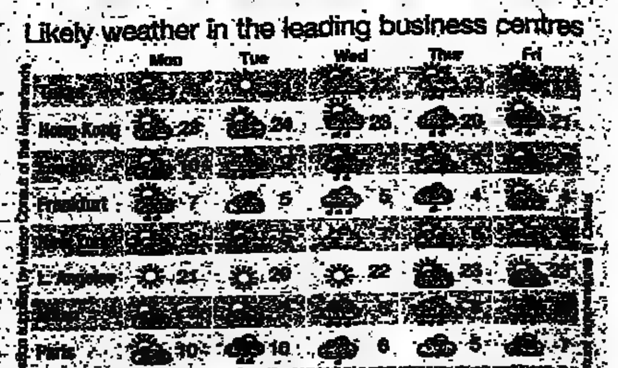
Cool conferences

Britain's fashionable new image appears to be attracting conference-goers. UK city hotels attracted 81 per cent more delegates from abroad last year than in 1994, says the British Tourist Authority. The number of conferences in which overseas delegates participated went up 7 per cent.

Longer in the leg

Thai International is to hit back at competitors by offering greater comfort to higher fare-payers. The airline plans to revamp its meal service and install new and fewer seats.

That will stretch legroom by 14in to 74in in first class. In business class legroom increases by 10in to 50in. The first aircraft to be equipped will be two new long-range Boeing 747-400s, due to be delivered this month.



No hidden extras

Amon Cohen reveals recent moves to control hotel bills

Holiday Inn has found an antidote to those scary hotel bills where extras seem to cost twice as much as the room itself. On February 1, and on a trial basis, it will launch an all-inclusive package of benefits provisionally branded as Business Plus.

The package will include breakfast, £30 worth of telephone calls, £30 worth of faxing and other business services and use of a meeting room. Complimentary leisure facilities will include use of the sauna if there is one, pressing of a shirt and a "goodies bag" which includes chocolates and sweets. There will be free use of a mini-bar with wine, beer and mineral water.

Ian Taylor, general manager of the Holiday Inn Crowne Plaza at London's Heathrow airport, and co-ordinator of the pilot scheme, says Business Plus will cost guests between and £45 and £49. The three-month test will be staged at three of Holiday Inn's UK properties: Sutton in Surrey, Maidenhead in Berkshire, and Leeds.

"Some of our customers are unhappy with the cost of some of the secondary services we offer, so we felt the need to package them as one item," says Taylor. "It is not so much for the guest as for the corporate buyer of travel. A package like this helps them with budgeting because they know exactly how much they are going to spend."

Cost-cutting gestures like this will be welcome news to travellers and their employers, who have been hit by some heavy room rate rises in the past two years in parts of Europe and the US. With the exception of recession-hit Germany, where tariffs have fallen in many cases, hotels are generally raising prices at a rate in excess of inflation.

Nowhere is this more apparent than in the UK, where hoteliers are putting pressure on customers who hardly ever paid the official "rack rate" during the early 1990s. Granada led the way when it raised rates at its Forte Posthouse properties by 17 per cent earlier this year, while Stakis was also among those that introduced double-digit increases.

The reason for these price rises is the strength of occupancy rates. London hotels were 83 per cent full in the first nine months of this year, according to Andy Duncan, director at Pannell Kerr, while Andrew Shaw, managing consultant at BDO Hospitality Consulting, reckons the level has been higher than 90 per cent at some properties.

As a result, says Duncan, achieved room rates – the amount the customer actually pays – are up 13.6 per cent in London. Outside the UK capital rates are 7.5 per cent higher, says Shaw, and are expected to rise 5.5 per cent next year.

To keep travel costs down, companies need to keep a beady eye on the cost of hotel rooms and services, says Chris Turnbull, joint managing director of Scholefield Turnbull & Partners, a business travel agency. "Companies tend to exert strict control over air travel but pay no attention to their hotel costs," he says. "A lot of hotel accommodation only comes through on travellers' credit cards, and is not monitored at all."

Part of the problem is that many travel agents avoid hotel bookings because of the fiddly nature of the work, and reserving hotel rooms abroad can be particularly fiddly.

The key to winning the battle against hotel costs is the same as for any type of warfare: gathering intelligence. Travel purchasers need to know exactly how much they are spending, with whom and in which cities. In this way, they can consolidate their spending with a smaller number of hotels, securing discounts in return for guaranteeing minimum volumes of business.

"You have to get a handle on your information, and [with] hotels that has always been more difficult," says

Derek Jewson, head of corporate travel purchasing for Unilever, which spends £7m a year on accommodation in the UK. The other great secret, Jewson believes, is to buy forward. "We give a commitment to hotels," he says. "They know they can get better rates from companies that are smaller than Unilever, but they know they will get the business from us when times are bad as well as good."

When making commitments to hotels it is vital, says Jewson, to tell employees where they can and cannot stay. At the same time, companies must ensure that their preferred hotels are attractive enough to make employees happy. "We give them a choice, but we limit that choice," he says.

Unilever has started to book rooms through First Option, one of several hotel reservation specialists which are happy to have work that general business travel agents would rather do without.

First Option, which claims to handle 1,000 bookings a day, offers two basic services. First it negotiates a standard discount that it offers to all new clients, typically between 5 per cent and 15 per cent per room. Then it spends three months compiling information to help it negotiate volume deals with fewer hotels in the cities in which the client proves to have a significant interest.

Elaine White, the Frankfurt-based president of Global Group, a travel industry consultancy, agrees that specialist hotel agencies are useful. "They are good for small to medium-size companies but large companies can get the same rates themselves and save even more money by cutting out the middleman," she says.

She adds that multinationals now have an additional way to consolidate their hotel expenditure, which is by negotiating pan-European discounts with hotel chains. To interest a chain in such a deal, purchasers need to patronise the chain in a good spread of cities. As well as merely guaranteeing a particular volume of business, they need to be able to transfer some of their business to the chain from one or more rivals.

"As an example, a company trying to interest Holiday Inn would have to promise to move across 75 per cent of the business it currently does with Marriott," says White.

Life for corporate purchasers of hotel services is nowhere near as relaxed as it was in the name-your-price days after the Gulf war. But there are savings to be made by cagey buyers.

Scheherazade Daneshkhu on the Channel tunnel closure

Paris-bound arrangements up in the air

The fire leading to the suspension of Eurostar services through the Channel tunnel that links the UK to Brussels and Paris two weeks ago has created havoc for business travellers, particularly on the more crowded London-Paris route.

Those with full-fare tickets have been able to get a refund quickly. But the real problem has been finding alternative arrangements.

British Airways, Air France and British Midland are among airlines which have increased capacity to Paris. BA says it has put on 26 per cent more capacity since the middle of last week through a combination of extra flights and larger aircraft. But it admits that demand is outstripping supply.

Eurostar's solution has been to urge its customers not to travel. "People have been disappointed because the planes have been full; that's why our advice has been do not travel at all because there are no satisfactory alternatives." It says it hopes to run a limited service from the beginning of this week.

Carlson Wagonlit, the business travel agent, says that the French lorry drivers' strike – which ended on Friday – made matters worse by causing delays for those driving into Paris from the airports. Brian Cronk, commercial director, says: "A lot have been waiting for Eurostar to come back into service but some have also been questioning whether they need to go to Paris at all."

Mike Platt, commercial affairs director at Hogg Robinson business travel agents, advises booking early. "Business travel to Europe is notorious . . . with people only booking a day or two before they travel. An awful lot of people want to go to Paris . . . but the flights are virtually full so they must book early. It's easier to cancel than to book late."

ARTS

OPENINGS

MILAN
The new season at La Scala begins on Saturday with a new production of Gluck's *Armide*, conducted by Riccardo Muti (left) and staged by Pier Luigi Pizzi. The title role is sung by Anna Caterina Antonacci.

LONDON
The British painter Howard Hodgkin is the subject of a retrospective at the Hayward Gallery, opening on Thursday. Over 50 oil paintings produced between 1975 and 1995 make up the exhibition, which was first seen in New York earlier this year.

MELBOURNE
One of the finest collections of Assyrian treasures goes on show at the National Gallery of Victoria on Wednesday. This touring exhibition of artefacts from the British Museum includes carved stone reliefs from the palaces of Assyrian kings from the 9th to the 7th centuries BC, plus clay tablets depicting Assyrian civilisation (right).

BONN
At the Kunst- und Ausstellungshalle, Naples is the latest subject in a series of exhibitions devoted to the great collections of Europe. The Museo Nazionale di Capodimonte has loaned works by Mantegna, Titian, El Greco, Correggio and Carracci, as well as examples of Neapolitan baroque painting, tapestries and statues. The show opens on Friday.

MANCHESTER
The 1996 Shell tour by the London Symphony Orchestra begins at Manchester's Bridgewater Hall tonight, followed by Newcastle, Glasgow, Aberdeen and London. All the concerts feature James MacMillan's *The World's Ransoming*, Schumann's Cello Concerto (with Steven Isserlis) and Beethoven's Fifth Symphony. The conductor is Sir Colin Davis.

MARSEILLE
Roland Petit's Ballet de Marseille present Petit's recent *Chéri* at the Marseille Opera House, with music by Poulenc, based upon Colette's delicious novella. At certain performances, the glorious Altynai Asylmuratova (right) will be seen as Léa, that most beguiling of *grandes horizontales*.

The Domingo effect

Has Placido overstretched himself? asks Andrew Clark

Age is creeping up on Placido Domingo, and the tenor seems to recognise it. When he *returns to London's* Royal Opera House this week for three silver jubilee performances, it will not be in one of the Italian or French roles for which he is best known. He will sing in Wagner's *Die Walküre*, conduct *Tosca* and take part in a fund-raising gala.

This trio of events, typical of the celebrity circus on which Domingo thrives, tells us a lot about how he sees himself and his future. Romantic tenor parts like Cavaradossi, which he was originally scheduled to sing this week, are becoming harder to sustain. In Salzburg earlier this year, he stumbled with Otello, and last month he was criticised for a "shamelessly faked" Flower Song in the Metropolitan Opera's *Carmen*. His latest recordings are unfavourably compared to earlier efforts, and there is a suspicion that his top notes are dubbed.

Domingo's taste is as refined as ever, and in the right roles the voice still has plenty of vigour. His weakness is that he spreads himself too thin: he often looks distracted and uninvolved. Increasingly it seems as if the real Placido is being replaced by a clone from Domingo Industries Inc. If you look at his diary for the past three months, you will understand why.

After a summer dominated by the Three Tenors tour, he began the season singing *Pagliacci* and conducting *Norma* on alternate nights in Los Angeles. In New York in October, he sang in *Fedora*, conducted *La traviata* and prepared a new production of *Carmen*. Last month he overlapped *Carmen* at the Met with *Il guarany* in Washington. Along the way he found time for recording and film work, celebrity baseball parades, his new Manhattan restaurant and his post as artistic director of the Washington Opera.

When you are accustomed to this level of activity and the adulation it brings, it is hard to let go – especially for an over-achiever like Domingo. He no longer needs the money, but he does need challenges to absorb his extraordinary energy and ambition. Faced with the inevitability of vocal decline, Domingo is carefully laying the groundwork to prolong his career. His recent choice of roles underlines his strategy: Loris in *Fedora* is one of the shortest in the repertory; Gabriele Adorno in *Simon Boccanegra* is a smaller Verdi part which allows a tenor to shine; Siegmund in *Die Walküre* makes few demands on his failing top.

Although nothing in his singing sounds remotely German, Domingo is desperate to be taken seriously in Wagner. He also wants to make his mark as a conductor, so that he can continue performing after his voice packs up. It is not as if Covent Garden or the Met cannot find someone better; and there is no *artistic* logic in having him conduct a single performance in the middle of a run, as is the case in London. But Domingo's pulling power is such that he can trade conducting engagements against opera managements' compulsion to have him at any price. However good or bad his conducting, most audiences are too star-struck to notice the difference.

"Domingo knows his scores," says a member of the Met orchestra, "but he doesn't give a strong lead. He's a singer, he belongs on stage. When he conducts, it's a bit like a dog walking on hind legs – no wonder everyone applauds."

Domingo also has ambitions as an impresario. In celebrity-obsessed Los Angeles, where he holds the titles of artistic adviser and principal guest conductor, he has done wonders for the L.A. Opera's media profile. At the Washington Opera, where he has a four-year contract as artistic director, a Domingo gala in March netted $2.6m. But the standard in both cities falls far behind the other companies with which he sings.

Many observers believe Domingo is using Washington as a stepping-stone to the job of artistic director at the Met. "Placido has made no real commitment to Washington," says a leading US opera manager. "He has given no thought to shaping a season. He's bringing in friends to sing and his wife to direct, and he thinks in four years he'll be qualified to run the Met. He could do it, but he's just not *there*. To be artistic director, you have to walk into people's rehearsals, you have to lead. If the company is going to have integrity, everything comes down to the person who has his hand on the tiller."

Beneath the polite and professional exterior, there seems to be an element of megalomania in Domingo – the relentless need to conquer more, the belief he can do no wrong. From the moment he burst upon the international scene in the late 1960s, after apprenticeships in Mexico, Tel Aviv and New York, his aim was to become the greatest tenor of the century.

He never quite succeeded. There was the long and self-defeating rivalry with Luciano Pavarotti, which used up a lot of psychic energy. He wanted to make a Hollywood film, to emulate Pavarotti's success with arena concerts. It took the Three Tenors phenomenon to make him realise it was unnecessary. Domingo always was the more intelligent and versatile artist – and the more complex personality. In the old days there could be pique at the mere mention of Pavarotti. On the rare occasions when *he lets his guard slip*, he talks like a caged lion, dreaming of an escape from commitments – strange in a man who fills every spare moment of his diary.

There is also the question of his age. Domingo claims to be 55, but with an eldest son aged 42, you wonder who is fooling whom. Dent's *New Everyman Dictionary of Music* lists his year of birth as 1934 – which would make Domingo 62. He is beginning to look it: he is less mobile, the paunch and double chin are well established, and he is finally letting his hair turn grey.

With his twinkling eyes and soft Spanish consonants, Domingo is still irresistible to women, but the ones he seems to be most interested in these days are the rich American patronesses who support his ambitions as an impresario. Apart from his loyal secretary, Peter Hofstetter, there is no Domingo entourage. He learns most of his parts on his own and controls his business affairs himself. His closest collaborator is his wife, Marta, who gave up her singing career to raise a family: he consults her at every rehearsal.

Since he first stepped on to *the Covent Garden stage* as Cavaradossi in December 1971, Domingo has travelled further than most tenors – and there is no saying how long he will last. Caruso died at 48, Bjoerling at 53, but Gigli was still singing beautifully when he retired at 66. Domingo has announced plans to add the title roles in *Peter Grimes* and *Le prophete*. Tristan and Siegfried, both long-cherished ambitions, might be possible in the recording studio. His prime was probably between 1980 and 1985: he had not yet lost the velvety surface of his youthful voice, but there was increasing evidence of burnished metal beneath it. Even today, even when he is coasting, Domingo is still 10 times better than other tenors.

Given his non-stop schedule and growing commitments in the US, Londoners can consider themselves lucky to have Domingo for just three performances. Between Thursday's Wagner rehearsal and his 25th anniversary gala a week later, he will fit in autograph sessions, courtesy visits and recordings. As his colleagues in Los Angeles and Washington have discovered, *Domingo delivers* what he promises. While he is there, he gives 95 per cent. The problem is, he's never there for very long.

Theatre

A farce of modern city manners

John Gapper reviews Malcolm Bradbury's 'Inside Trading'

A plausible young man turns up in a merchant bank, and gains the confidence of its directors. They are so impressed by his ability to conjure up profits that they allow him to risk its capital on a speculative venture. *They do not want to offend him by asking awkward questions.* Sound familiar?

Malcolm Bradbury started his first stage play before the collapse of Barings at the hands of Nick Leeson, and Morgan Grenfell's humiliation by its star fund manager Peter Young. Yet events have conspired to make *Inside Trading* embody the spirit of the modern financial age.

Bradbury is best-known for novels, literary criticism and television plays. He ventured into stage writing at the behest of Henry Burke, the founder of the Norwich Playhouse, who had the idea of adapting *Jugend Vorm*, a little-known farce first staged in 1933 as Adolf Hitler ascended to power.

The work by Paul Vulpius – a pseudonym for an unknown author – had echoes of Hitler himself. The fast-talking young man who joins a stuffy old family bank only to transform its fortunes and seduce the chairman's daughter, was a fitting anti-hero for a comedy of the Weimar republic.

This adaptation – directed by Burke – leaves little of the Vulpius play apart from its central figure. In Bradbury's play he becomes Tim Wickerman, a well-spoken rogue who finds it all too easy to hoodwink Battenbergs bank. Turning up out of the blue, he dazzles its dim-witted family chairman. The result is an *entertaining farce of modern City manners*, with a sure touch for a good pay-off line.

As Sir Richard Battenberg, rumbustiously played by Richard Heffer, rambles on about the glorious past, he tails off uncertainly. "When the Eiffel Tower was built in . . ." he falters. "Paris," chips in a senile fellow director, trying to help.

Despite the absurdity of *Wickerman's deception*, and egregious stupidity of the bank's directors, it is unhappily convincing. After Nick Leeson's Singapore spree, who could rule out the idea of a City bank persuading the government to use lottery money to invest in a fake millennium property development on Greenwich marshes?

The repertory cast contributes some amusing cameos, notably Peter Whitbread's portrayal of Lord Holbeck, the bank's oldest director, who lurches unpredictably between lucid insight and self-regarding idiocy. Yet by the third act, there is a feeling of something missing from a drama largely played as *Charley's Aunt in the City*. To work at a deeper level, *Inside Trading* needs as its anti-hero a Mephistopheles who menaces as well as charms. Duncan Wisbey's portrayal of Wickerman does not manage to evoke the sadism of the virtuoso conman, who brutally exposes the idiocy of those around him as much for the pleasure of crushing them as the end result.

This blunts the drama, and makes Helga Battenberg's willingness to plot with her lover to deceive her father appear charmingly fey, rather than the undermining of a stultified old order by a cold-hearted new one. It is an enjoyable night out, but Bradbury's play is deeper *and more unsettling than* this production lets on.

At the Norwich Playhouse until December 14 (01603 766466).

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-6718345
● Andras Schiff: the pianist performs Schubert's Sonata in E, D566, Sonata in C, D840 and Sonata in A, D845; 8.15pm; Dec 3

ATHENS

CONCERT
Athens Concert Hall
Tel: 30-1-7282333
● I Solisti Veneti: with conductor Claudio Scimone, soprano Cecilia Gasdia, mezzo-soprano Bernadette Manca di Nissa and the Fons Musicalis perform works by Pergolesi and Vivaldi; 8.30pm; Dec 4, 5

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Berliner Sinfonie-Orchester: with conductor Roderich Kreile, soprano Vasulka Jezovsek, alto Elisabeth Wilke, tenor Markus Brutscher, bass Klaus Mertens and the Dresdner Kreuzchor perform works by Handel and Mozart; 8pm; Dec 5, 6, 7

FRANKFURT

CONCERT
Alte Oper Tel: 49-69-1340400
● Capella Istropolitana: with conductor Enoch zu Guttenberg and clarinettist Jörg Widmann perform works by J.S. Bach and Mozart; 8pm; Dec 4

LONDON

AUCTION
Sotheby's; Parke Bernet & Co. Tel: 44-171-4938080
● Impressionist and Modern Art: highlights of this sale include Edgar Degas' pastel "Trois Danseuses" (1903), Edouard Manet's "Le Bal de l'Opéra" (1873) which is an oil study for his composition "Bal masqué", and Alfred Sisley's painting "Pruniers et noyer au printemps" (1889). Also included in the sale are a group of works by German Expressionist artists, notably Emil Nolde's oil "Fischkutter" (1916), and an early portrait of Brigitte Bardot by Kees van Dongen, dating from 1954; 7pm; Dec 3, 4 (10.30am & 2.30pm)

CONCERT
Barbican Hall
Tel: 44-171-6384141
● Westminster Philharmonic Orchestra: with conductor Ian Humphris, baritone Alan Opie and the National Westminster Choir perform works by Handel, Tchaikovsky, Leoncavallo, Borodin and others; 7.30pm; Dec 4
Queen Elizabeth Hall
Tel: 44-171-9210600
● Gerhard Oppitz: the pianist performs works by Brahms and Liszt; 7.45pm; Dec 4
Wigmore Hall
Tel: 44-171-9352141
● Imogen Cooper, Jane Irwin and Christoph Berner: the pianist, the soprano and the pianist perform works by Schoenberg, Beethoven, Schubert and Berg; 7.30pm; Dec 3

DANCE
Royal Opera House – Covent Garden Tel: 44-171-2129234
● The Royal Ballet: perform William Forsythe's Steptext to music by J.S. Bach, a new ballet by Ashley Page to music by Moran/Prokofiev, and Kenneth MacMillan's Winter Dreams to music by Tchaikovsky; 7.30pm; Dec 4

EXHIBITION
Spink & Son LTD. Tel: 44-171-9307888
● Lindy Guinness: "Across the Irish Sea": an exhibition of recent oils and watercolours of Irish landscapes by Lindy Guinness; from Dec 4 to Dec 24
Tate Gallery Tel: 44-171-8878000
● Nicholas Pope "The Apostles Speaking in Tongues": exhibition showing sculptures by Nicholas Pope based on traditional religious iconography. These form part of a long-term design for a chapel the artist has been working on since returning to work following serious illness. In this group 12 standing figures, the Apostles, are surrounded by a small multitude. In all, there are 31 figures, each between 6ft and 8ft tall and worked in fired brick clay; from Dec 3 to Feb 23

MADRID

EXHIBITION
Fundación Colección Thyssen-Bornemisza
Tel: 34-1-4203944
● Contexts of the Permanent Collection 2: "Kirchner. Fränzi in front of Carved Chair, 1910": exhibition dedicated to Ernst Ludwig Kirchner's painting "Fränzi in front of Carved Chair", dated 1910. Alongside this work, some 17 related works – oils as well as drawings – are shown. Fränzi and her elder sister, Marcella, were two child models who began to pose for Kirchner and Erich Heckel around 1910. The appearance of the child Fränzi as a model in Kirchner and Heckel's works coincides with the interest that the painters of the group "Die Brücke", founders of German expressionism, showed towards the art of the so-called primitive societies; to Jan 26

NEW YORK

CONCERT
Alice Tully Hall
Tel: 1-212-875-5050
● Isaac Stern, Joshua Bell, Lawrence Dutton, Lynn Harrell and Yefim Bronfman: the violinists, viola-player, cellist and pianist perform works by Prokofiev and R. Schumann; 8pm; Dec 4
Carnegie Hall
Tel: 1-212-247-7800
● Bayerischen Rundfunk-Symphonieorchester: with conductor Lorin Maazel and cellist Mstislav Rostropovich perform works by Prokofiev and Maazel; 8pm; Dec 4

PARIS

DANCE
Théâtre National de l'Opéra – Opéra Garnier
Tel: 33-1 42 66 50 22
● The Nutcracker: a choreography by Rudolf Nureyev to music by Tchaikovsky, performed by the Ballet de l'Opéra National de Paris; 7.30pm; Dec 3

EXHIBITION
Centre Georges Pompidou
Tel: 33-1-44 78 12 33
● Munio Gitai Weinraub: exhibition devoted to the work of the architect Munio Gitai Weinraub (1909-1970) who was a student at the Bauhaus in Dresden in the early 1930s and formed a partnership with Al Mansfeld for some 20 years (1937-1959), realising about 250 projects, mostly in the Haifa region; to Jan 6

MUSICAL
Théâtre du Châtelet
Tel: 33-1 42 33 00 00
● Black and Blue: by Segovia/Orezzoli. Directed by Claudio Segovia and Hector Orezzoli, performed by the Théâtre du Châtelet; 8.30pm; Dec 3, 4, 5, 6, 7 (also 4pm), 8 (2.30pm & 6.30pm)

SALZBURG

EXHIBITION
Rupertinum – Salzburger Landessammlungen
Tel: 43-662-80422336
● Adolf Wölfli (1864-1930): exhibition of drawings by the Swiss "Art Brut" artist Adolf Wölfli from the collection of the Kunstmuseum Bern; from Dec 5 to Mar 2

STOCKHOLM

CONCERT
Stockholms Konserthuset
Tel: 46-8-7860200
● Filharmonikerna: with conductor Sakari Oramo, pianist Peter Jablonski and trumpeter Jan Gustavsson perform works by Alfvén, Shostakovich and Beethoven; 7.30pm; Dec 4

VIENNA

OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● La Bohème: by Puccini. Conducted by Sutej, performed by the Wiener Staatsoper and the Wiener Sängerknaben. Soloists include Hong, Papoulias, Moisiuc and Sramek; 7.30pm; Dec 5

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. Tel: 31 20 664 6441. E-mail: artbase@pi.net

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10.00 *European Money Wheel*

18.00 *Financial Times Business Tonight*

COMMENT & ANALYSIS

Hard times for tax police

Chrystia Freeland on the state's lack of money in Russia

Between lubricious episodes of Latin American soap operas and prize-packed game shows, Russian television viewers these days are assailed by a hardline pitch from the tax police, Russia's gun-toting tax-collection agency of the last resort.

"Do you like it when your children go to good schools? Do you like it when your streets are clean? Do you like it when you are treated well in the hospital?" a stern baritone intones.

"Do you dislike it when crime surges? Do you dislike it when rubbish is not collected from the streets? If you want all of the things you like to continue and the things you don't like to be stopped – pay your taxes!"

The advertisement is part of the Kremlin's new drive to boost revenue collection, an issue that was forced to the top of the country's economic agenda after federal government revenues plunged to 11.1 per cent of gross domestic product in the first six months of the year, compared with 33.4 per cent in 1995.

To bring revenues back up, a special government commission, named after the Cheka, Lenin's dreaded secret police, has been created to force Russian companies to pay their taxes. It has already threatened some of Russia's best known enterprises, including the manufacturer of the Lada car, with bankruptcy.

Even the International Monetary Fund has joined in the campaign. Although the IMF says Moscow has met its budget deficit and inflation targets, the fund has delayed the October tranche of its three-year $10.2bn loan to Russia because of weak tax collection.

But a few Russian and western economists question whether the government's most urgent mission is to revive plunging state revenues. They argue that, instead of fighting the trend, the Kremlin should simply accept that Russia, once the world's most domineering nanny state, has become a low-tax country.

"I think society is telling the government it doesn't want to be a high-tax society," says an economist at a western financial institution. "My feeling, from talking to people under 40, is that they are very cynical about the state, they do not expect very much. You can mess around with the tax code until you are blue in the face, but Russia is basically a low-tax country."

This view reflects the way many Russians already live. On paper, the state continues to provide free and universal education and healthcare, while unemployment is lower than in the US. But in practice, government services are chronically underfunded, because the Kremlin's inflation-fighting policy keeps real expenditure in line with revenues.

As a result, civil servants and companies that supply the state are regularly not paid. According to one recent estimate, more than two-thirds of Russians in October did not receive their salaries on time. State organisations, ranging from the Atomic Energy Safety Commission to the Kirov Ballet, have periodically been forced to close because of the lack of government funds.

To survive, most government services are being privatised by stealth. Public hospitals levy charges for special services, such as the right to choose your surgeon, and most patients supply their own food, medicines and "gratuities" to medical staff. Schools, where teachers' salaries are often delayed for several months, survive thanks to similar private contributions.

Since the state fails to provide the free schools and medical care evoked by the tax police, ordinary Russians feel little compulsion to contribute to the Kremlin's kitty. "You are supposed to pay 80 per cent of your wages to the state, but the state gives you nothing," says Mr Boris Fyodorov, a member of parliament and former minister of finance. "So what is the reaction of the ordinary man on the street? He says: 'Go to hell with your taxes.'"

Mr Andrei Illarionov, director of the Moscow-based Institute for Economic Analysis, says: "What we must do is honestly separate the state and the private sectors. What we are doing now is a huge hypocrisy – the state promises to pay, but it does not. Citizens are supposed to pay, but they do not."

Mr Illarionov thinks that shrinking Russia's still bloated state – the number of bureaucrats has actually increased since the collapse of the Soviet Union – would spur the nation's contracting economy to return to growth. "State expenditures are inevitably less efficient than private expenditures, so the lower the amount of GDP that goes into the government, the more quickly the economy grows. Just look at Asia.

"This is doubly true for Russia, because our state is particularly ineffective. It's one thing to give money to the Swiss government; but it's altogether different to give it to the Russian government."

The economists calling on the Kremlin to adopt a low-tax strategy believe a much smaller state would be better able to carry out those functions that should not be privatised. These include police and legal functions such as the enforcement of contracts and the protection of property; both are now routinely provided by private armed groups including mafia.

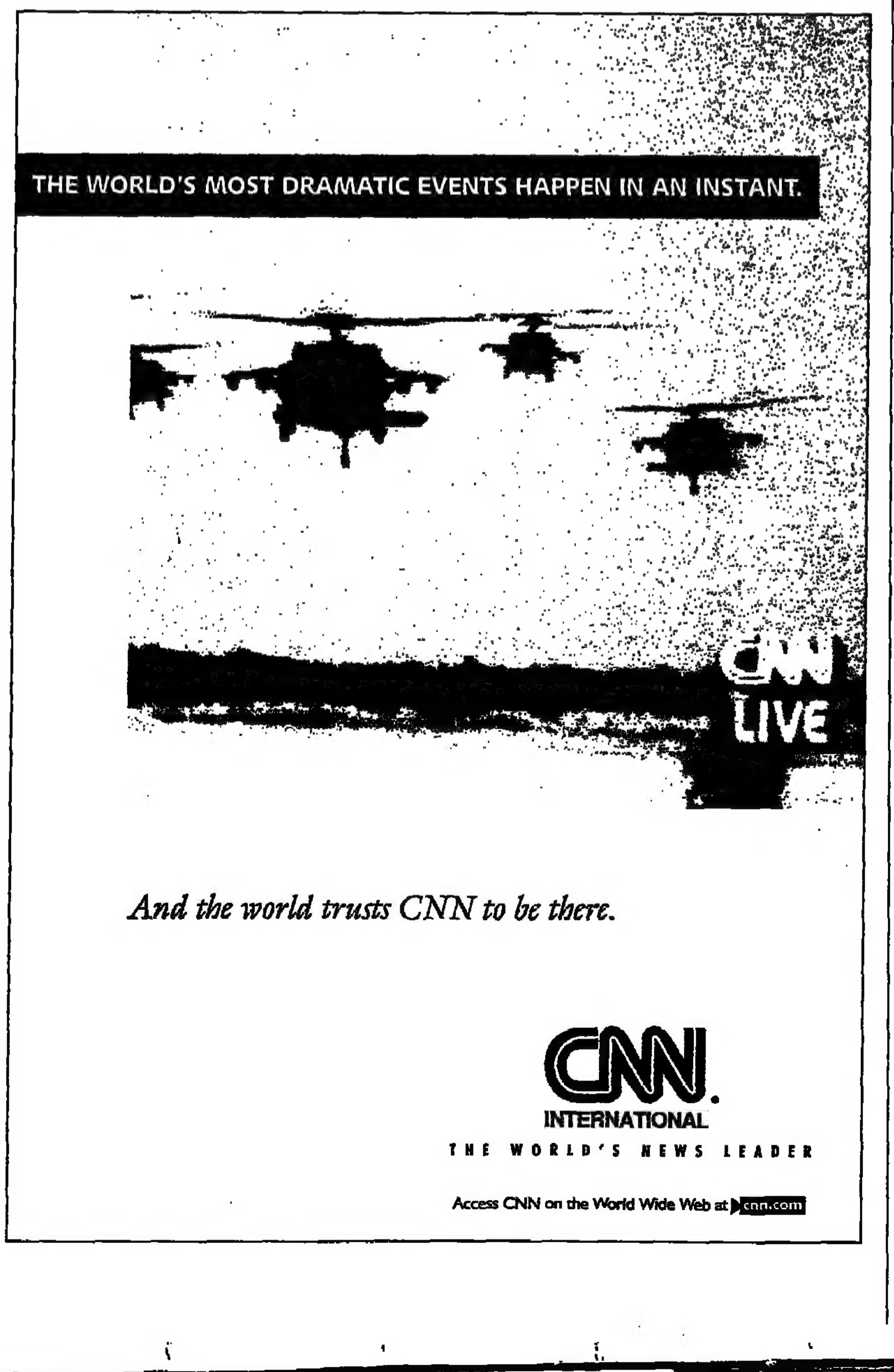
They also believe the government should pursue one type of revenue that should be easy to collect – the rent on Russia's vast natural resources. The nation's fossil fuels, metals and minerals have fallen into private hands, and the Kremlin has been slow to claim full taxes from the influential businessmen who control them.

But 79 years after the Bolshevik revolution, and five years after the Communist party was ousted from power, one of Karl Marx's most cherished goals is at last being realised in Russia: the state is withering away.

Russia: expenditure falls as tax revenues shrink

Per cent of GDP	RUSSIA 1992	93	94	95	96	US 1992	JAPAN 91	TAIWAN 91	CHINA 93
Government expenditure	71.1	48.0	51.5	39.3	38.8	36.1	34.2	29.4	15.8
of which:									
Administration	1.8	2.4	3.0	3.6	3.2	1.8	4.2	2.2	1.5
Defence	4.5	4.2	4.6	2.9	2.7	5.0	1.0	4.7	1.2
Education	3.6	4.1	4.5	3.4	4.0	5.9	5.0	6.0	1.8
Health	2.5	3.1	3.2	2.4	2.4	2.5	1.3	0.0	—
Social security	9.3	9.0	10.0	9.1	9.7	12.4	5.4	4.9	0.2
Government debt service	2.5	2.0	4.3	4.1	6.5	4.2	5.0	3.6	0.3

Source: Institute for Economic Analysis



LETTERS TO THE EDITOR

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Apec should seek regional free trade, but with US participation

From Mr Hugh Corbet.

Sir, Your editorial "Apec's lost opportunity" (November 27) is evidence of Apec, the Asia-Pacific Economic Co-operation forum, being in danger of losing credibility after its recent Manila meetings. But the disappointing outcome was hardly a surprise to those familiar with Apec's step-by-step development. (See my article *L'Apec face à de nouveaux choix* in the current issue of Politique Etrangère, Paris.)

It is not the Apec process, devoted to more than trade liberalisation, that is being put in doubt. It is the approach to trade liberalisation that is drawing fire. In Osaka a year ago Apec adopted an action agenda based on voluntarism and peer pressure called "concerted unilateralism". The US, without serious negotiating authority from Congress, was not in a position to advance an alternative approach, which may have been just as well.

It has been worth trying "an Asian way" to see how far it can go. As you say, though, it is doubly difficult to liberalise trade outside a formal negotiating framework. On top of that, governments volunteer to liberalise what is easy, not what is hard – viz. the absence in Manila of agricultural offers.

The east Asian economies have benefited greatly from trade liberalisation elsewhere, through the multilateral trading system, but have contributed little to initiating the process. They have not yet addressed what it takes to overcome hard-core protection. So it is too early to be drawing conclusions.

Some of us may prefer the multilateral approach to trade liberalisation, but its shortcomings have become formidable, as the struggles to start and finish the last two "rounds" proved. How many political leaders are prepared to invest their energy, prestige and careers in the effort required? How many business leaders? How many others?

Apec has been driven from the outset by an interest in strengthening the multilateral trading system. Bewailing the regional nature of the initiative is a bit late, and also a bit rich, when the western Pacific economies were provoked by the regional policies of others to try collective action as a way of pursuing their interests. For it to work, however, the Apec members have to hit on an approach to achieving "free trade in the region" that can induce the US to participate – and the European Union to respond by supporting a new round of multilateral negotiations. They have a long way to go.

Hugh Corbet,
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Focus not to be blurred

From Mr Peter Agar.

Sir, Nigel Wilkins, in his letter (November 19) on our *Boards without Tiers*, misrepresents the Confederation of British Industry's position. We do not view maximising shareholder value as excluding proper regard for stakeholder interests. Instead, we argue that in order to be successful in the marketplace and serve shareholders, companies must take account of the interests of their employees, consumers and suppliers.

Beyond that, stakeholders may be protected by legislation. But formalising responsibilities to stakeholders would blur companies' focus and make directors less accountable.

Peter Agar,
deputy director-general,
Confederation of British Industry,
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UK

Bank's financial strength recognised

From Mr Bert de Kock.

Sir, Re your article "Membership of the AAA club put on the line" (November 27), while we at nv Bank Nederlandse Gemeenten pride ourselves on being the banker on behalf of public authorities, we do not benefit from any explicit state guarantee.

While Rabobank has been a member of all three AAA clubs for a bit longer than we have, I should point out that BNG applied for ratings from Moody's, Standard & Poor's and IBCA in 1994 and has not looked back since.

Being the fourth largest Dutch bank, as well as one of the world's best capitalised institutions, BNG has, moreover, been awarded the highest Moody's bank financial strength rating of A in 1995.

Bert de Kock,
senior vice-president,
treasury and international capital markets,
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The Netherlands

Single market rules at risk

Mr John Manos.

Sir, Mr Giles Radice says (Letters, November 14): "The single market is based on a system of common rules which need a court to police them." Wrong. The single market is based on common rules which are at risk of being devalued through being only variably enforced. The European Court of Justice cannot enforce them; subsidiarity means it is politically unacceptable to insist on their being "policed", as Mr Radice would like.

The UK has done more than most to negotiate constructive directives under Article 118A and, I suspect, more for the credibility of EU legislation by persisting with its complaints about the unsound legal basis of the working time directive (however much the directive's provisions may have been watered down).

John Manos,
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Athens 10673, Greece

Spirit of convergence must be applied

From Mr K.E. Ayers.

Sir, I strongly welcome the suggestion in your editorial "Hard or soft boiled Emu" (November 27) that it is necessary that all of the potential members of the single currency should agree to apply the spirit rather than just the letter of the convergence criteria.

If a single currency is to be sustained it requires genuine economic convergence, the timing of which will vary from country to country. The fudges that we have been seeing recently will enable some countries to qualify for membership without this genuine economic convergence and the pain will be even more acute once the short-term palliatives have become ineffective or expired.

Then there is the practicability of sanctions for countries which cheat in one way or another.

For all of the participating countries to achieve the right currency levels at the same time will be impossible. Those that really want the single currency to succeed should find ways of insisting on genuine economic convergence before countries are admitted, and if this means (as it will) that not all of them can join at the same time, then so be it.

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UK

Personal View • Abby Joseph Cohen

A fundamental strength

The health of corporate profits should ensure Wall Street's bull run continues

It took little more than seven weeks for the Dow Jones Industrial Average to reach 6,500 after passing through the psychological 6,000 barrier on October 4. During that time, pessimists have become ever louder in their predictions of an imminent end to Wall Street's bull run, which has now lasted six years.

Yet I believe that recent gains have been well supported by fundamental developments in the US economy and among America's leading companies. Far from representing warnings of the end of the bull market, they look set to continue for some time to come.

US share prices typically move in a staircase pattern. Substantial price increases (and declines) are telescoped into short periods of time and are then followed by an extended trading range in which share price indices are choppy but trendless. Investors sit back to contemplate the market's action and await future news on the economy and corporate performance. There are movements between sectors at such times as investors gradually construct the most likely scenario for the coming months.

I believe the catalysts for future market activity are largely positive. Principal among them will be moderate economic growth which generates profit increases but little upward pressure on inflation.

The most recent upward step in equity prices began in late July when investors recognised that profit increases were continuing despite a slowing in economic growth. In the third quarter which followed, real growth in gross domestic product was 2 per cent, operating profits in the Standard & Poor's 500 companies increased 7 per cent on the previous year and inflation was unchanged. Inflation fears abated, 30-year Treasury bond yields fell from 7.2 per cent to 6.4 per cent and share prices moved higher.

This was an appropriate response to favourable news. As for most of the past six years, the rising market has been supported by evidence that the economic expansion is long-lasting and profit-intensive rather than especially vigorous.

The growth in profits has been stretched out like Silly Putty but the cumulative profit gains have been significant – they have doubled since 1991. Profits generated by companies such as those in the S&P 500 continue pleasantly to surprise investors with their durability and quality.

The durability is linked to the extended nature of business expansion and the upward shift in operating margins since the mid-1980s.

The quality is tied to several factors. First, low inflation means the earnings reported by companies are "real", with very little derived from inflation or inventory-related fluff.

Second, changes in accountancy practices made by the Financial Accounting Standards Board in the 1990s have encouraged conservative accounting approaches on several important issues, including employee benefits.

For example, many companies took large charges against earnings and book value for future healthcare expenditure in the early 1990s when double-digit inflation in medical costs was assumed. Healthcare inflation is now less than 5 per cent, suggesting the possibility that some earlier charges might be reversed.

Third, corporate write-offs for past mistakes and corporate restructuring have shrunk and now represent less than 10 per cent of reported earnings, compared with 40 per cent in 1991.

The gap between modest GDP growth and more energetic profit gains from the S&P 500 companies encourages some to believe that the latter cannot continue for long. But the gap can be explained by three factors that will not soon end:

- First, the S&P 500 is an actively managed index (please pardon the oxymoron). These are among the best companies in America, and are not meant to represent the average.
- Second, growth in GDP has been muted by the stagnation in government spending this decade. However, private sector GDP growth – which generates private sector profits – has been more vigorous.
- Finally, the output of the substantial offshore direct investments made by US companies boosts the GDP of the host countries – but the resulting profits boost US earnings and US share prices.

How much should investors be willing to pay for corporate earnings? Some sceptics maintain US shares are overvalued even if solid fundamental conditions persist.

I readily admit that US shares are not as attractively priced as they were. At Goldman Sachs, we recommend at present that US portfolios allocate 60 per cent of their assets to equities, down from 70-75 per cent in 1995. But a 60 per cent weighting reflects our belief that equities can generate returns at least in line with growth in corporate earnings and cash flow – and thus that equities are not overvalued at present levels.

Valuation approaches vary by market. In some countries, yield-oriented approaches are the most statistically robust. In the US, earnings-related valuation models are the most helpful.

Nominal dividend yield is quite low in the US market, at 2.2 per cent for the S&P 500. But this is tied to low inflation and a record low cash payout of 35 per cent of earnings.

Simply stated, dividends are low not because companies cannot afford to raise them but because they have decided against doing so. Most managements would prefer to reinvest in company operations, an apparently sensible action given average returns on equity of 20 per cent.

In addition, share repurchases have been used as a tax-efficient alternative to paying cash dividends which is often preferred by tax-paying investors. Since the late 1950s, the last time dividend yields on equities exceeded bond yields, investors have increasingly depended on equities for earnings growth and capital appreciation rather than income.

The S&P 500 now trades at less than 16 times the Goldman Sachs estimate for operating earnings in 1997, at a time when the consumer price index (CPI) has been rising at an annual rate of about 2.8 per cent. When inflation has been 3.5 per cent or less over the last 45 years, price/earnings ratios ratios have averaged 16.2.

However, even this may be to underestimate the extent to which US shares are undervalued. Many economists believe the CPI overstates inflation and that a truer picture may be offered by other measures such as the GDP deflator which currently suggests inflation of 1.8 per cent.

In the past, protracted periods of 2 per cent inflation have been associated with price/earnings ratios of 18 to 20. Our analysis suggests that share prices can rise from present levels – even without price/earnings ratio expansion – based on additional profit gains expected in 1997.

The author is co-chair of the Investment Policy Committee at Goldman Sachs, New York

COMMENT & ANALYSIS

FINANCIAL TIMES

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Monday December 2 1996

The affair of López and VW

The resignation on Friday of Mr José Ignacio López, Volkswagen's head of purchasing and production, marks the beginning of the end of the controversy that accompanied his departure from General Motors.

It leaves unanswered, however, a central question. What is the dividing line between information and expertise which an employer may legitimately hope to obtain from a new recruit, and proprietary data which it is wrong to acquire in this way?

The law varies from country to country, but for most business people the issue turns on the physical storage of the information. Data on paper or computer discs should not be transferred if they are the private property of a company. Expertise and ideas in an executive's head are fair game.

The allegations against Mr López have not been heard in a court of law. If they are true, however, he crossed the fuzzy but still entirely workable dividing line between legitimate use of prior experience and improper exploitation of company secrets. Responsible business people should not only avoid this themselves, they should also avoid inciting or condoning it in others. For all its protestations of virtue, VW has yet to demonstrate that it escaped this particular hazard.

All sides admit that, with or without the GM documents, Mr López is an exceptionally talented executive, an incarnation of the principle that the real value of creative business people lies not in whatever detailed secrets they may possess but in broader ideas and – above all – in the ability to implement them.

Such human transfers of new ideas between companies are in everyone's interest, as Silicon Valley's creative ferment demonstrates. Even ideas, however, are less important than the ability to turn them into practice. This skill is something intrinsic to a person, and cannot be treated as the property of an employer.

The lesson is that a company hiring new recruits is fully entitled to exploit their skills at implementation. It is also entitled, though perhaps a little more cautiously, to exploit the ideas they bring with them. It is not entitled to exploit proprietary factual information. This is, however, the least valuable asset of a new recruit.

Because of his energy and imagination, Mr López has already given VW most of the value it could reasonably have hoped for. He could have provided almost all that value even if he had not brought a scrap of paper with him. The López case shows that, in the long run, there is little to gain from acquiring proprietary data in this way – and much to be lost.

Slow post

Last week, the postal ministers of the European Union failed once again to agree on plans to liberalise mail deliveries in the member states. They were not being asked to do anything radical. The European Commission was calling for one modest portion of the market – direct mail deliveries and cross-border services – to be liberalised in five years' time. That would leave some 80 per cent of all services still reserved for the national postal monopolies. Yet a majority of member states fears even such a cautious step.

It is now nine years since the Commission first received complaints from private operators about the lack of competition for postal services in the EU. It took five years for a green paper to be produced, and another three for a directive to be drafted – the very plan which ended in deadlock last week. Given the entrenched opposition to change from many member states, led by France, it is perhaps understandable that the Commission has dragged its feet. But it is now clear that softly-softly reform is unlikely to make any headway.

Opponents of liberalisation of the postal market argue that it would undermine the provision of a universal postal service, by hiving off profitable parts of the operation to private enterprise. They also undoubtedly fear the job consequences for some 2m state employees across the EU.

Such arguments have already been discussed, and largely disproved, in the telecoms sector. There, regulation will remain to protect consumers from near monopolies, but few would seek to argue that a universal telephone service requires public ownership and restricted competition. The European Commission has used its powers to enforce competition for basic voice telephony throughout the EU by 1998. What is so different about postal services?

Tellingly, the two countries in the EU where mail deliveries have been effectively liberalised – the Netherlands and Sweden – also boast the most profitable and efficient universal services. France and Italy, two opponents of radical change, have the biggest lossmakers. The opposition to liberalisation appears to be more emotional than practical. As usual, it is the customers that suffer.

It is high time, therefore, for the European Commission to use the powers at its disposal to enforce competition under Article 90 of the Rome treaty. Indeed, it is obliged to do so if it receives complaints. Last week's deadlock should be the signal for a renewed flurry of objections, from consumers as well as service providers, at the failure to liberalise. Then Brussels may at last overcome its timidity.

Local taxes

Seventeen years of – in the main – remorseless centralisation of UK local government have left local authorities and the government stuck between a rock and a hard place.

Their location is amply illustrated by last week's Budget. The government announces that it wants another £830m ($1.4bn) spent on education and adjusts councils' standard spending assessments to allow for that. Local authorities reply that they are already spending more than that sum implies – so they will have to raise the council tax to do it.

But the government, having eased the capping rules last year to allow extra education spending through, has tightened them again this – to limit the size of council tax rises ahead of the general election.

Many big authorities therefore face a 1 per cent limit on their spending increase, while being expected to find 3.6 per cent more for education.

The result can only be a further squeeze on their other big budget – social services. But lack of cash there is already trapping elderly patients in hospital beds. To ease that pressure, the government has been forced to hand over extra health service cash to councils to mitigate (not solve) the problem. This is no way to do business. No one gains from it. Government is blamed for all deficiencies. Councils lose the ability to [illegible], innovate and in any real sense to govern. The electorate is increasingly denied the right to decide what level of services it wishes to see locally.

The answer must be to restore local government's financial base – making its own resources more closely match the duties placed upon it. Returning the business rate to local government would be an important first step – taking councils nearer to the 60 per cent of their own expenditure that they once raised, against the less than 25 per cent which the council tax now provides.

With that should come other reforms – annual elections for a part of each council and experiments with directly elected mayors – to enhance local accountability.

Some last-ditch cap on business rates may need to be retained. But otherwise councils should be left accountable to their electorates, in a local authority world very different to the one which led government to centralise their finances in the first place.

The Audit Commission now provides an exposure of each council's relative performance that was unknown 17 years ago, while Labour local authorities, which then penalised business, have learnt the price they paid – devastation of their local economy. Only by returning business rates to councils can real accountability and the electorate's right to choose be restored.

The FT Interview • Jacques Santer

At ease with his beliefs

The president of the European Commission tells Lionel Barber and Andrew Gowers he has no doubts about Emu going ahead on time

Mr Jacques Santer is not a man weighed down by the burden of office. The president of the European Commission takes everything in his leisurely stride in Brussels, seemingly oblivious of tumultuous events elsewhere in Europe.

Last week, truck drivers brought France to a standstill. The industrial chaos, reminiscent of UK labour unrest 20 years ago, looked like another warning shot against low growth and high unemployment in Europe, as governments accelerate their push towards economic and monetary union (Emu).

But during a 90-minute interview over lunch at the European Commission, Mr Santer was unflappable. He brushed off doubts about Emu going ahead in 1999; insisted that "things are moving in the right direction" in Europe; and defended his own low-key style against unfavourable comparisons with the activist leadership of Mr Jacques Delors, his predecessor.

Where does Mr Santer's cheery confidence come from? The crucial development this year, he said, was that governments were taking the Maastricht criteria for entry into the single currency seriously, especially the public sector deficit target of 3 per cent of gross domestic product.

He singled out for praise the centre-left government in Italy, the centre-right coalition in France and the German government's plans to reduce the deficit to an estimated 2.5 per cent of GDP in 1997, "whatever certain German economic institutes may say".

The second argument is that Emu has become the vehicle for Europe's ambitions to play a political role on the world stage commensurate with its economic weight. Time and again, Mr Santer referred to the way in which the single currency – the euro – could act as a counterweight in the currency markets to the dollar and the yen.

"Money always has political consequences. There will be a new evolution of institutions, through the creation of the European central bank," he said. "Emu is not just a technical operation, it will give Europe a new place and a new value. It was always conceived as such."

As a former Luxembourg prime minister, Mr Santer is sensitive to the history of the single currency project. His political mentor – Mr Pierre Werner, former prime minister of the Grand Duchy – was the intellectual godfather of monetary union. He produced the first blueprint for Emu in 1971, only to see the plan derailed by the currency ructions caused by the first oil crisis.

With little more than one year to go before European Union leaders select which countries meet the Maastricht entry criteria – covering inflation, exchange rate stability, public deficits and government debt – Mr Santer is wary of those who would once again prefer to delay the project. "If we postpone the date in 1999, we risk a delay for a generation."

Lately, Mr Santer has repeatedly suggested that delaying Emu would have the same negative impact as the failure of the European Defence Community which was voted down in the French National Assembly in 1954. Yet Europe bounced back, and three years later the founding six (France, Germany, Italy and the Benelux countries) signed the treaty of Rome. Why should Emu be any different?

At this point, Mr Santer paused to sip a glass of white wine. "A delay would miss the chance to perfect the single market." The D-Mark would be revalued, he said, just as the Swiss franc had been forced up lately to the detriment of Swiss industry. Germany, with its overvalued currency, would be "like King Midas" whose touch turned everything to gold.

And what about sceptical public opinion, especially those Germans who worry about exchanging their D-Mark for an untested euro? Mr Santer suggested the battle in Germany had largely been won. "There has been a fundamental change in the attitude of the political classes, especially the opposition Social Democratic party. Their leadership fought the last [regional] elections largely on the basis of opposition to Emu, and they lost."

Mr Santer's tone is firm, but not insistent, on the single currency. He comes across as a believer, but not a fanatic. The one area where he is less flexible is on the interpretation of the Maastricht criteria.

For Mr Santer, there can be no question of taking in weaker economies at the launch of Emu in 1999. Those that do not qualify will have to wait "a year or two", although all those outside will get a guarantee that they can join once they meet the Maastricht targets.

"Emu must start on the basis of credibility in the markets. I have always rejected the arguments of Giscard d'Estaing [former President of France who last week called for a weaker franc against the dollar] because it is not politicians who fix exchange rates, it is the markets."

Still, pressure is piling up for a generous interpretation of the entry criteria. The latest, most controversial example was the French government's reduction of 0.5 per cent in the budget deficit through pension fund receipts from the partial privatisation of France Télécom.

Mr Santer is clearly stung by allegations of political interference in the deliberations of Eurostat, the independent Luxembourg-based agency which screens all statistics: "Eurostat took opinions from three bodies and decided by a clear majority. But this was a unique exercise and cannot be repeated."

As further proof of Eurostat's independence, he noted that other countries such as Belgium had had similar budgetary manoeuvres rejected. But he added, pointedly, that France, "because it is an important country, was allowed to go ahead with its proposal".

The broader, political question is how to avoid Emu dividing Europe into first and second division clubs. Without mentioning Italy or Spain by name, Mr Santer bemoaned the fact that certain countries had made Emu membership a matter of "national pride". Although Emu would most likely be narrow in membership, it would "not be as narrow as I thought when I came to Brussels two years ago".

Finally, what about British intentions? Would the UK be in the first group or not? Mr Santer made clear that, whatever happened in 1999, Britain would join soon afterwards as a result of pressure from the City of London and UK industry. His immediate concern was the present thrust of British policy toward Europe.

Mr Santer is frustrated. He may have forgotten the blistering phone call from Mr John Major, UK prime minister, complaining about the EU ban on British beef exports because of fear of mad cow disease; but he is mindful of later British blocking tactics which "left traces" in Brussels. "Britain must not let itself be marginalised."

British tactics in the negotiations on the EU's inter-governmental conference (IGC) to revise the Maastricht treaty are too negative, Mr Santer implies. In 1986, he recalled, British pragmatism – pursued by both Prime Minister Margaret Thatcher and Sir Geoffrey Howe, foreign secretary – had ensured a successful outcome to the Single European Act. "At the present time we are defining the architecture of Europe in the 21st century, I regret that the UK is not at the centre of [discussions]."

Yet Mr Santer has no intention to surprise public opinion with grand initiatives for a fully fledged political union like his predecessor Mr Delors. "He came up too soon in the Maastricht negotiations with proposals which were too visionary," said Mr Santer.

For Mr Santer, the big picture is what matters, not tomorrow's headlines. His four strategic goals are: Emu; the IGC; enlargement to central and east ern Europe which will require an overhaul of EU institutions and core policies such as regional aid to poorer countries and the common agricultural policy; and a new EU budget deal in 1999.

Without reforms in EU decision making in the IGC, enlargement would be at risk; a failure of Emu would also have unpredictable consequences. All these projects must be wrapped up under his presidency, which ends in January 2000. "Everything is linked, but we must keep everything separate."

Mr Santer said he had no interest in *déclarations fracassantes* (sensational declarations) but in *travail en profondeur* – in-depth work. History, he suggested, would judge him on results.

His calm self-appraisal may occasionally upset his colleagues who fear that the Commission is turning timid in the face of powerful member states. But Mr Santer is a consolidator, a creature of his time, at ease with himself – and with the European ideal.

• OBSERVER •

Frequently fallacious

■ Canadian Airlines International has found the solution to a big headache in the industry: how to reverse the ever-mounting pile of frequent-flyer points accumulated by loyal passengers.

Unclaimed points, classified as *accrued or contingent liabilities*, make up a sizeable chunk of many airline balance sheets, especially in North America where accumulating and managing frequent-flyer points has become a near-obsession.

Cash-strapped Canadian Airlines, whose "accrued" liabilities comprise more than a quarter of the total, warned recently it would stop flying soon if unions and creditors failed to agree on a restructuring. The warning set off a stampede to cash in frequent-flyer points. Over the past few weeks, requests for free reward trips have been between 50 and 60 per cent above normal.

The timing couldn't be better for the airline. Worried that their points may soon be worthless, most claimants booked trips in November and early December, when there is no shortage of empty seats.

But having rattled frequent flyers, Canadian now faces the challenge of assuring its creditors that things *aren't* so bad after all.

Brussels spat

■ Stand by for high jinks at today's meeting of EU finance ministers in Brussels – not among the politicians, but those sent to report them.

The Ecofin session, called to discuss progress on monetary union will not, insists UK chancellor Kenneth Clarke, take any substantive decisions; the importance of the event is being played down by the Brits.

But the low-key approach hasn't prevented hordes of London-based lobby correspondents heading for the Belgian capital, in expectation of a spectacular bust-up.

The British government contingent is dreading the implications of a frustrated press pack in search of a story; either "UK Caves In" or "UK Says Non" will do, but nothing less will justify the trip. If that doesn't work, there's always the Dublin summit in two weeks' time.

Acronym aversion

■ Amusing to see that wags have rechristened Apec – the Asia Pacific Economic Cooperation forum – "A Perfect Excuse to Chat". It has inspired Brussels' Eurocrats to come up with multilingual variations on the same theme.

Thus in French the initials are rendered as *Accord sur la Prolifération d'Eternelles Conversations*, while in German they have been transliterated less elegantly into *Abkommen der Endlosen Konversationen*.

This game could run forever. For instance, the UN might convert into "Utterly Numbing". Unctad could metamorphose into "Unlimited Number of Conferences To Agree to Differ". The OECD? "Only Ever Can Disagree."

Nobody has yet found something similarly suitable for the WTO, which holds its first ministerial meeting in Singapore in December. How about "We Talk Only"?

Readers will certainly be able to improve on all this. A bottle of malt whisky will head its way to the three renditions that most accurately reveal any international organisation's *true* activity. Entries – by December 31 – posted to the usual address, or faxed to Observer on: *00 44 171 873 3926*.

Peace breaks out

■ This may have slipped your notice: peace is about to be declared in a 500-year-long war in the eastern Caribbean.

Outright hostilities between the Arawaks, a tribe Christopher Columbus found occupying eastern Caribbean islands, and the more bellicose Caribs, who moved northward from South America, ceased long ago, when they joined forces against the European invaders.

But they forgot to sign a peace treaty. Now it's finally to be signed in the island of Dominica by Barbadian-born Damon Corrie, a descendant of Amoretahe Hamacika, Guyana's last Arawak ruler, and Hilary Frederick, chief of the Dominica Caribs. The document will then travel by canoe through the archipelago and to Guyana, being signed by other leaders of the tribes.

Contemporary Caribbean politicians have with much fuss signed pacts creating an economic union that so far has failed to work. Maybe they could learn from the Caribs and the Arawaks – first unite, then have the celebratory drinks when everything's settled down.

Don't bank on it

■ Either it's a wonderful place to work or things are more serious than we imagined. Almost 18,000 people have applied for 222 jobs advertised by the Monte dei Paschi di Siena, Italy's oldest banking institution.

Financial Times

100 years ago

Motors! Motors!! Motors!!! (Advertisement) "Preliminary announcement by the British Motor Syndicate Ltd. Registered Capital £1,000,000 in £1 Shares. Present Price Of Shares £3. That we are now on the eve of one of our greatest epochs is clear! The world's traffic is to be revolutionised, but naturally not without cost. Huge fortunes will be amassed by the poorest, and that perhaps quickly. From the baker's cart to the loveliest equipage all are interested. The millions of money invested both in our great British railways and vast cycling trade will be dwarfed before the exacting demands of this new Motor Industry. The companies which manufacture under the licences of this syndicate include the Great Horseless Carriage Company and the Daimler Company."

50 years ago

Canadian Wage Controls Go. Wage and salary controls would be removed at midnight to-night, the Prime Minister, Mr Mackenzie King, announced yesterday. He stated that the only exceptions were cases pending, which would be ended as quickly as possible. This means that wage negotiations will return to straight collective bargaining.

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FINANCIAL TIMES
Monday December 2 1996

Controversy over genetic-modification labels

EU agrees rules on sale of 'novel' food

By Caroline Southey in Brussels

The European Union has agreed controversial rules for the sale of genetically engineered foods after months of acrimonious debate. The deal will mean most such products could be marketed without special labelling.

The move agreed last week has angered environmental campaigners who have protested across the EU against the import of genetically modified soyabeans.

Some countries, such as Germany and Austria, had backed environmentalists' calls for tough rules on the grounds that the products may harm human health.

The food industry welcomed the deal. "We are relieved that a compromise was found. It means a legal vacuum has been filled and there will be uniformity across the EU," an industry specialist said. The rules cover all "novel" foods, defined as those which have never been sold in the EU before or products made using a new technology. Rules have also been agreed on registering new products.

Companies will have to label all "live" genetically modified products. "Live" products are those that could theoretically grow if put in soil, such as tomatoes, potatoes and strawberries.

Labels will also be required on processed food where the chemical make-up of the product is no longer "equivalent" to conventional food because genetically modified ingredients have been used.

But products with genetically modified ingredients which are deemed "chemically identical" to conventional food after processing or are "substantially equivalent" will not have to be labelled. This loophole would allow oil made from genetically modified soya beans to be marketed without a special label. It would also allow a mix of genetically engineered and conventional products to be imported without extra labels.

Environmentalists vowed to continue their campaign against imports of soyabeans produced by Monsanto of the US.

Monsanto said it was still considering the agreement. The company won approval from the EU in April to market a soya bean made resistant to one of its own herbicides.

EU food retailers and wholesalers have argued that US grain companies, such as Monsanto, should segregate beans, pointing out that crushed soyabeans are used in 60 per cent of processed foods and consumers will unwittingly eat genetically modified products even if they wish not to.

Argentina may issue first global peso bond next year

By Stephen Fidler and David Pilling in Buenos Aires

Argentina is considering issuing the first international bond denominated in its own currency next year. The aim is to emphasise market confidence in the peso's fixed exchange rate with the dollar and widen the pool of investors in Argentine debt.

"We are considering that very seriously, but we have not made a decision yet," said Mr Miguel Kiguel, undersecretary of finance in the economy ministry.

The idea would be to issue an international bond, perhaps early next year, with a maturity of five to 10 years in pesos. "That would clearly indicate there is confidence in Argentina," said Mr Kiguel.

Officials said there were strong indications from investment banks that it would be possible to place such an issue.

One advantage would be that peso bonds – unlike Argentine dollar and other foreign-currency bonds – are rated as investment grade by the main US rating agencies. This would significantly widen the pool of potential US investors in Argentine paper, since many US institutions cannot buy bonds regarded as speculative by the rating agencies.

It would also make clear the market's view of the exchange rate risk of the peso, which has been fixed by law at parity to the US dollar since 1991.

"You can't avoid the market pricing in some kind of exchange-rate risk in Argentina. But it would also show the market perception that the fundamentals are solid," said Mr Pablo Guidotti, the treasury secretary.

An interest rate margin of 200 basis points – 2 percentage points – between Argentine dollar and peso bonds would indicate a belief that over five years there would be only a 10 per cent devaluation.

The government faces a total financing requirement of $14bn next year after privatisations, including a deficit of $3bn-$3.5bn. Much of this is accounted for by $2bn in 90-day paper known as Letes, which will be rolled over.

It is also planning for the first time an auction of longer-term treasury bonds through the same 12 dealers which bid for Letes treasury bills. Initially, it will seek to issue $500m of two-year dollar-denominated bonds, or Bontes.

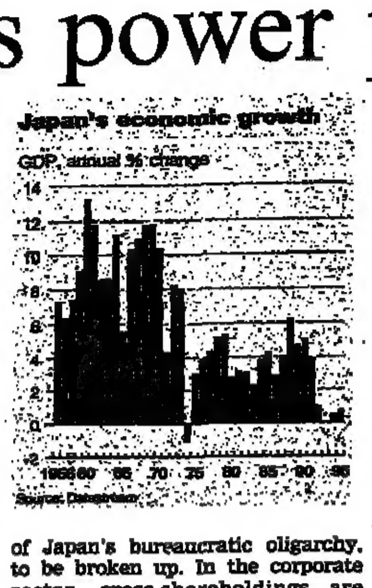
The sale will be a big test for the government. Economist Mr Roberto Alemann said: "Argentines have not yet been willing to buy government bonds from the treasury."

Bonds, Page 26

THE LEX COLUMN

Swiss power plays

Union Bank of Switzerland and CS Holding may have failed to resolve their differences in a proposed merger earlier this year, but they have reached a sensible strategic consensus. Both have admitted the necessity for internal restructuring. And last weekend, they belatedly recognised that electricity generation is a non-core business. The move to break up Electrowatt looks a precursor to a later disposal of CS Holding's controlling stake in the electricity and industrial combine. Meanwhile, UBS is selling 40 per cent of Switzerland's other significant power group, Motor-Columbus, to Electricité de France and RWE. Selling non-core businesses may appear an obvious strategy, but it has so far eluded the German banks and is to be welcomed.



Nonetheless, it is a pity the two banks could not temporarily bury their grievances and merge their power businesses. A merger might sound like a national, rather than commercial, solution. But Switzerland is at a geographic crossroads within continental Europe. A large and cost-efficient Swiss power group could play a hugely profitable role once the European Union's electricity market is deregulated, even though Switzerland is outside the EU.

With new shareholders now involved, a merger looks less less feasible. But at least Motor-Columbus's new shareholders will ensure that it benefits from deregulation. As for EdF and RWE, locking in a route across the Alps should give them an edge when competition finally sparks up.

Japan

Do the past five years of recession and political turbulence mark the beginning of Japan's decline as an economic power or the start of its renewal? That depends on whether it can implement the structural changes it so badly needs: from manufacturing-led to consumer-driven economy; from over-regulated bureaucracy to a more open market; and from a culture of corporate rigidity to one of entrepreneurial freedom.

There are some encouraging signs. Deregulation has sparked a mobile phone boom, lowered air fares and brought the country its first proper supermarkets. Mr Ryutaro Hashimoto, the prime minister, has pledged far-reaching financial reforms. There are even calls for the Ministry of Finance, the heart of Japan's bureaucratic oligarchy, to be broken up. In the corporate sector, cross-shareholdings are slowly dissolving and companies have started setting targets for their financial returns.

Yet on the whole progress is disappointing. Mr Hashimoto's "Big Bang" reforms are planned over five years – more like a big trickle – and few would bet that his minority government will be around to see them through. The civil service remains firmly in charge of policy-making and a seemingly endless stream of scandals points to widespread corruption.

Among companies, too, structural changes have been limited. The top 500 have cut some costs, mainly by moving production off-shore to counter the strong yen. But revenues have fallen faster, so profit margins remain at a dismal average of 3 per cent. And even companies shedding staff, such as Toyota, have set their face against redundancies.

The concept of shareholder value has yet to reach Japanese shores. The corporate sector is hugely cash-rich, with liquid reserves of nearly 5 per cent of gross national product. With returns on invested capital falling, companies should hand cash back to shareholders. But rising dividends and share buy-backs are almost unheard of. The problem is that managers are motivated neither by greed nor fear. Most do not own shares and there is no serious threat of takeover.

Given the growing maturity of existing corporations, the government is pouring money into "sunrise" industries, such as multimedia and advanced materials. But Japan has no venture capital providers to speak of and on average it takes 18 years to float a new company on the stock market, so there may be few benefits for investors. Could the impetus for change come from consumers instead? The collapse in property prices has dented personal balance sheets. But the impact has been more psychological than real since few people have sold. Meanwhile, price deflation has made consumer goods cheaper, while seniority-based salaries continue to rise. By western measures, the Japanese put up with a remarkable amount of discomfort given their wealth. But to them, living standards are rising steadily.

As long as each section of society continues to benefit from the status quo, it is difficult to see who will press for change. And unless Japan changes more rapidly in the next 10 years than it has in the past five, it is heading for decline, not renewal.

UK smaller companies

Smaller companies continue to deliver investment returns insufficient to justify their greater risk. Venture capital group 3i's enterprise barometer last week showed UK entrepreneurs foreseeing nothing but blue skies ahead.

But the stock market projects a cloudier picture. Small companies' profit forecasts for 1996 have edged downwards through the year, with a disproportionate impact on share prices. So the FTSE SmallCap index has now had relatively flat performances for three consecutive years. So much for the so-called smaller company effect, which promised consistent outperformance by the minnows, particularly in a bull market. The problem has been that more subdued economic conditions have a greater impact on the domestically inclined smaller companies – particularly given heavy weighting in the ailing general industrial sectors. Yet this weighting could become a positive. A stronger sterling will weigh more against bigger companies, and as destocking works its way out of the economy, that will also benefit small companies.

Small cap shares are trading at a marginal premium to the market on 1996 profits forecasts, while growth rates next year are forecast at almost double the stock market average. Of course, investors have heard a similar story for the past three years, and it has proved fantasy. But this time the economy looks more supportive. Besides, one small company effect has survived the tougher 1990s: they traditionally outperform in the earlier stages of the year.

UK will join, Santer says

Continued from Page 1

the power of the Commission rested on its ability to speak with one voice.

In response to those in Britain who argue that Emu would amount to an unacceptable transfer of national sovereignty, he said: "It is not a question of national sovereignty. Governments have long abandoned it [to the financial markets].

"They cannot fix the day-to-day value of the currency."

Additional reporting by Liam Halligan

Utilities buy Swiss stake

Continued from Page 1

on the transaction. UBS said that it had proved impossible to keep Motor-Columbus in purely Swiss hands.

But it stressed that its intention of remaining the largest single shareholder would ensure the company's Swiss character.

The deal laid the foundation stone for the creation of an energy holding company that could exploit the opportunities in the soon-to-be deregulated European electricity market.

European energy ministers agreed in June to open electricity markets to limited competition progressively from 1999. EdF has been aggressively expanding abroad this year.

Demand boosts bond and equity issues by 30%

By Daniel Green in London

Investors scouring the world for higher yields have triggered a 30 per cent increase in issuing activity on international financial markets this year, according to a report by the Organisation for Economic Co-operation and Development.

In some markets, the rises have been unprecedented, thanks to falling interest rates and diverging national economic prospects.

The value of international bond and equity financing, including syndicated loans, euro-commercial paper and medium term euro-notes, was $1,195bn for the first nine months of 1996 compared with $919bn for the same period in 1995.

There were sharp rises in all categories of financial instrument except syndicated loans over the period, says the report, Financial Market Trends, which was published yesterday.

An "astounding" $221bn of international dollar bonds was issued in the first nine months of the year, up from $128bn in the same period of 1995.

The performance of bond markets was "remarkable" because there was a rise in all main types of bond being issued by all types of borrowers.

The value of issued bonds for the first nine months was $522bn, compared with $347bn. The rise was sharper for floating rate notes, up from $80bn to $114bn. Equity linked bonds rose from $13bn to $29bn. Euro-dollar offerings rose from $105bn to $194bn as the dollar rose.

International D-Mark bond offerings rose from DM73bn to DM121bn, mostly driven by the internationalisation of the German public sector and mortgage bonds markets.

Offerings of foreign bonds in Japan more than doubled as borrowers increased their efforts to sell bonds to private buyers.

Emerging markets have proved to be among the most popular with lenders internationally as investors have broadened their search for higher yields.

Borrowers in central and eastern Europe "have probably experienced the most important change in terms of improved access to capital markets".

Borrowers in South America raised $21bn, compared with $8bn last year. A $6bn floating rate note from United Mexican States issued in August had originally been a $3bn issue.

Financial Market Trends available on subscription. $67 for three issues from OECD Publications, 2 Rue André-Pascal, 75775 Paris, CEDEX 16, France.

FT WEATHER GUIDE

Europe today

Most of Europe will have a strong westerly air flow which will bring cool, unstable air to the area. There will be cloud, wintry showers and sunny intervals. Western parts will have numerous showers, which may be accompanied by sleet or small hail.

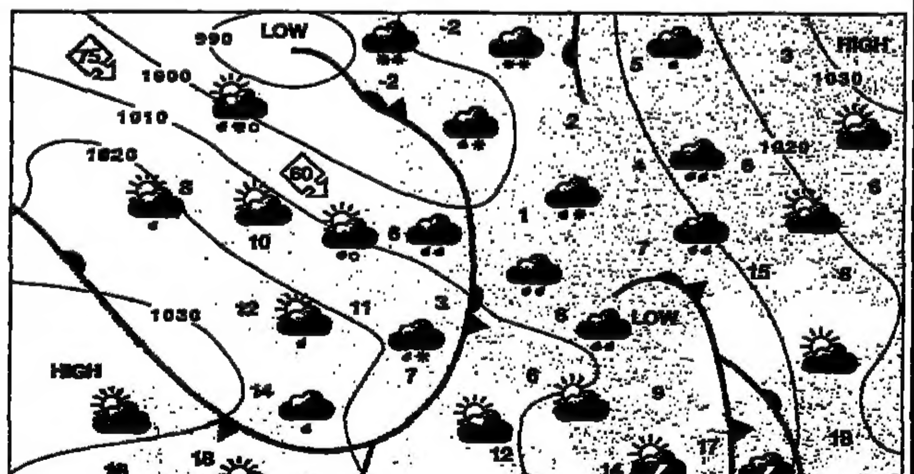
Active low pressure in the eastern Mediterranean will cause cloud and heavy thunder showers, especially over Greece.

Temperatures will stay below zero in Scandinavia.

Five-day forecast

A low pressure system will develop over the Atlantic and move towards the North Sea, bringing cloud and rain to most of western Europe.

The active low over Greece will slowly move east and sunny intervals will return to the area.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius												
Abu Dhabi	fair 26	Beijing	sun 8	Caracas	thund 30	Faro	sun 19	Madrid	sun 14	Rangoon	fair 31		
Accra	fair 31	Belfast	shower 7	Cardiff	shower 9	Frankfurt	shower 7	Majorca	sun 18	Reykjavik	snow 2		
Algiers	fair 20	Belgrade	shower 5	Casablanca	sun 18	Geneva	sleet 4	Malta	fair 15	Rio	thund 26		
Amsterdam	shower 8	Berlin	sleet 3	Chicago	fair 3	Gibraltar	sun 17	Manchester	shower 8	Rome	fair 14		
Athens	thund 16	Bermuda	fair 24	Cologne	shower 7	Glasgow	shower 9	Manila	shower 30	S. Frsco	fair 14		
Atlanta	sun 14	Bogota	fair 20	Dakar	fair 30	Hamburg	shower 6	Melbourne	fair 21	Seoul	sun 2		
B. Aires	sun 29	Bombay	sun 33	Dallas	sun 20	Helsinki	snow 0	Mexico City	fair 23	Singapore	thund 29		
B.ham	fair 8	Brussels	shower 7	Delhi	sun 23	Hong Kong	fair 23	Miami	thund 28	Stockholm	sleet 3		
Bangkok	fair 35	Budapest	fair 3	Dubai	sun 28	Honolulu	fair 28	Milan	fair 7	Strasbourg	shower 9		
Barcelona	sun 17	C.hagen	shower 6	Dublin	hail 7	Istanbul	shower 16	Montreal	cloudy 3	Sydney	fair 27		
		Cairo	fair 22	Dubrovnik	rain 10	Jakarta	shower 31	Moscow	cloudy 2	Tangier	sun 18		
		Cape Town	fair 17	Edinburgh	hail 8	Jersey	fair 9	Munich	shower 9	Tel Aviv	fair 24		
						Karachi	fair 28	Nairobi	fair 24	Tokyo	fair 9		
						Kuwait	sun 22	Naples	fair 13	Toronto	fair 2		
						L. Angeles	sun 21	Nassau	fair 28	Vancouver	rain 6		
						Las Palmas	sun 22	New York	fair 9	Venice	fair 7		
						Lima	fair 23	Nice	fair 15	Vienna	cloudy 5		
						Lisbon	sun 16	Nicosia	shower 20	Warsaw	sleet 1		
						London	fair 10	Oslo	snow 0	Washington	sun 9		
						Lux.bourg	shower 5	Paris	fair 10	Wellington	shower 17		
						Lyon	shower 8	Perth	fair 21	Winnipeg	snow -10		
						Madeira	fair 20	Prague	sleet 3	Zurich	sleet 3		

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